

# Enron Transaction Approval Summary

## Merchant Transactions

Board of Directors Meeting:

May 2, 2000

TODAY'S DATE:

April 21, 2000

Tab No.	Region/ Business	Investment Class	Date Approved	Transaction Name	Transaction Size	Approval Authority*	Net Amount
M-1	EBS	Conforming	17-Apr-00	Avici II (1)	\$ 5,000,000	ENE-OOC	\$ 5,000,000
M-2	EE&CC	Conforming	07-Mar-00	EECC Genesis Power/GE Turbines	\$ 72,580,000	ENE-CEO/COO	\$ 72,580,000
M-3	EE&CC	Conforming	17-Mar-00	Extension of Demar Liquidity	\$ 18,100,000	ENE-OOC	\$ 18,100,000
M-4	ENA	Conforming	14-Feb-00	Linden Six	\$ 48,040,000	ENE-CEO/COO	\$ 24,020,000
M-5	ENA	Conforming	19-Mar-00	Mariner Energy LLC	\$ 31,000,000	ENE-CEO/COO	\$ 31,000,000
M-6	ENA	Conforming	22-Dec-99	Mission Coal Financing	\$ 24,300,000	ENE-OOC	\$ 24,300,000
M-7	ENA	Conforming	31-Jan-00	Motown (including addendum)	\$ 57,500,000	ENE-CEO/COO	\$ 12,500,000
M-8	Europe	Conforming	10-Feb-00	Octagon	\$ 18,400,000	ENE-OOC	\$ 18,400,000
M-9	Europe	Conforming	25-Feb-00	OPET	\$ 10,035,000	ENE-OOC	\$ 10,035,000
M-10	ENA	Nonconforming	28-Mar-00	OS Integration Holdings Limited	\$ 11,200,000	ENE-CEO/COO	\$ 11,200,000
M-11	ENA	Conforming	08-Mar-00	Project Buffalo (2)	\$ 1,520,000	ENE-OOC	\$ 1,520,000
M-12	ENA	Conforming	23-Mar-00	Sapphire/Independent (3)	\$ 2,919,000	ENE-OOC	\$ 2,919,000
M-13	ENA	Conforming	12-Apr-00	Whiskey	\$ 16,400,000	ENE-OOC	\$ 16,400,000
<b>Total Funded Capital Approved:</b>					<b>\$ 316,994,000</b>		<b>\$ 247,974,000</b>

### Commodity

Tab No.	Region/ Business	Investment Class	Date Approved	Transaction Name	Transaction Size	Approval Authority*	Net Amount
M-14	Europe	Conforming	19-Feb-00	CEZ	\$ 6,900,000	ENE-OOC	\$ 6,900,000
M-15	EES	Conforming	07-Feb-00	Zeppelin	\$ 37,100,000	ENE-CEO/COO	\$ 37,100,000
<b>Total Commodities</b>					<b>\$ 44,000,000</b>		<b>\$ 44,000,000</b>

### Divestitures

Tab No.	Region/ Business	Investment Class	Date Approved	Transaction Name	Transaction Size	Approval Authority*	Net Amount
M-16	ENA	Conforming	09-Feb-00	Calder	\$ 10,800,000	ENE-OOC	\$ 6,480,000
M-17	ENA	Conforming	17-Feb-00	First World Divestiture	\$ 129,100,000	ENE-CEO/COO	\$ 129,100,000
M-18	ENA	Conforming	07-Feb-00	Hubble	\$ 11,400,000	ENE-OOC	\$ 5,700,000
M-19	ENA	Conforming	10-Feb-00	Merlin	\$ 324,200,000	ENE-CEO/COO	\$ 242,800,000
<b>Total Commodities</b>					<b>\$ 475,500,000</b>		<b>\$ 384,080,000</b>

\* Approved under authority granted at the August 1999 Board meeting. Included for information purposes only.

(1) Total Exposure after this transaction is \$10.0 MM.

(2) Total Exposure after this transaction is \$21.6 MM.

(3) Total Exposure after this transaction is \$7.6 MM.

EC004402071

**M-1**

EC004402072

# ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

**DEAL NAME:** Avici II  
**Counterparty:** Avici Systems Inc.  
**Business Unit:** EBS  
**Business Unit Originator:** Steven Sheldon  
☐ Public      ☒ Private  
☒ Merchant      ☐ Strategic  
☒ Conforming      ☐ Nonconforming

**Date DASH Completed:** April 6, 2000  
**RAC Analyst:** David Crews  
**Investment Type:** Equity  
**Capital Funding Source(s):** Balance Sheet  
**Expected Closing Date:** April 14, 2000  
**Expected Funding Date:** April 14, 2000  
**Board Approval:** ☐ Pending ☐ Received ☐ Denied ☒ N/A

**RAC Recommendation:** ☒ Proceed with Transaction ☐ Returns below Capital Price ☐ Do not Proceed

## APPROVAL AMOUNT REQUESTED

Capital Commitment      \$5.0 million

## EXPOSURE SUMMARY

This transaction:      \$5.0 million  
 Total Avici      \$10.0 million  
 Total Fund      \$46.0 million  
                              ~~\$6.0~~  
                              \$41.0

The total fund exposure is the amount invested in the EBS Venture Capital Fund to date.

## DEAL DESCRIPTION

Enron would make an additional minority investment of \$5 million in Avici. On September 30, 1999, Enron invested \$5 million in Avici at \$8.35/share. Avici is allowing early purchasers of its equipment to acquire additional equity at \$15.00/share. Williams and AT&T are expected to buy equity in this round. This new investment would give the company a post money valuation of \$750 million.

Avici Systems Inc. is a private company involved in developing and producing terabit routers. Terabit routers are the next generation of router technology. Avici currently has a product that has several technical advantages (speed, scalability, and interoperability) over its competitors.

## TRANSACTION SOURCES AND USES OF FUNDS

	<u>Sources</u>		<u>Uses</u>
Third Party Equity	\$35,000,000		
Enron Equity	\$5,000,000	General Corporate Purposes	\$40,000,000
Total	\$40,000,000		\$40,000,000

## RETURN SUMMARY

Enron would invest alongside existing and new investors, Williams (confid.) and Bowman, at a valuation approximately twice the valuation of Enron's initial investment. This increase in value is supported by discussions that the company has had with investment banks (Morgan Stanley and CSFB) about pricing for their IPO and estimated trading ranges. The bankers' view for pricing is \$1.2 to \$1.5 billion with an estimated trading range of \$3.2 to \$4.8 billion.

Bowman Capital will lead the round with an investment of \$10 to \$20 million to become a new financial investor in the company. This investment supports the market pricing of this round.

The current venture capital round would value the company at \$750 million post-money. Comparable companies, similar product and the same or earlier stage of development, have been sold in June 1999 (Nexabit for \$900 million, Netcore for \$575 million). Another company, Juniper, went public last June at \$5.5 billion and has a market cap of approximately \$34 billion.

## CASH FLOW SUMMARY

No cash flows are expected until Exit.

EC004402073

---

## TRANSACTION UPSIDES/OPTIONALITY

In addition to the large potential returns, Enron hopes to benefit by better understanding the technology involved and its potential use in the Enron network.

---

## EXIT STRATEGY

Avici is in the process of choosing an investment bank between Morgan Stanley and CS First Boston. Both have strong reputations in internet/equipment IPOs. The company's anticipated target date is July, 2000. If this date slips into August, the IPO may be delayed until the fall.

Enron will be subject to an additional lockup of up to six months post-IPO.

---

## RISK MATRIX (Maximum 5)

DESCRIPTION	MITIGATION/COMMENTS
Competition	<p>Large companies (Cisco, Nortel, Lucent) with manufacturing abilities, strong marketing arms, and multiple products have historically dominated the router business. Avici has a better technical product than other providers of routers but does not currently have these other strengths to make a strong ongoing business.</p> <p>While Juniper Communications has been incredibly successful in turning one product into a company, its sustainability has not been proven. Avici will face difficult competition from larger entities with broader product lines if it remains an independent company.</p> <p>Avici management understands the market and is willing to consider selling out to a larger telecom infrastructure company but is currently building the additional capabilities necessary to compete as an independent company.</p>
Internet Growth	<p>The company's success depends on the continued exponential growth of the internet. To sustain this growth, the infrastructure of the internet will require high-speed routers, such as this company provides.</p>
Company Growth	<p>The company has projected revenues of \$2.5 million for 1999 with \$70 million anticipated for 2000, with approximately 100% annual growth for the next several years. This growth is based on an extensive marketing, sales, and manufacturing operation, which is in the process of being put in place.</p>
Cisco Relationship	<p>Enron currently has a strategic relationship with, and buys its current routers from, Cisco. This investment, through the Venture Capital Fund, is not seen by the commercial groups to be unmanageable.</p>

EC004402074

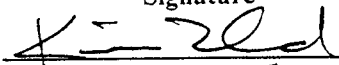



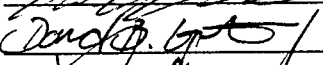
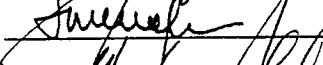
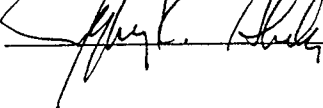
## KEY SUCCESS FACTORS

	NA	Poor	Fair	Good	VGood	Excellent
Core Business					X	
Strategic Fit					X	
Upside Potential						X
Management					X	
Risk Mitigation			X			

## OTHER RAC COMMENTS:

- 1) Nortel was an early initial investor in Avici and currently owns approximately 18% of the company. With their acquisition of Bay Networks, a potential competitor with Avici, Nortel has resigned from the Board but will maintain their equity stake.
- 2) As part of the initial equity purchase, Enron has the right to participate in a Technology Advisory Committee for the next three years. This will provide additional opportunities to learn about this part of the industry.

## APPROVALS

	Name	Signature	Date
Commercial Mgmt.	Kevin Garland		4-17-00
Regional Mgmt.	Joe Hirko/ Ken Rice/Kevin Hannon		
Legal	Kristina Mordaunt		4-11-00
Accounting	Tod Lindholm		4-17-00
RAC Management	Rick Buy/ David Gorte		4-13-00
Enron Capital Management	Andy Fastow/Jeff McMahon		4-12-00
ENE Management	Jeff Skilling		4-17-00

EC004402075

# ENRON RISK ASSESSMENT AND CONTROL

## ECI PORTFOLIO CHECKLIST

DEAL NAME: Avici II  
 Counterparty: Avici Systems, Inc.  
 Business Unit: Enron Broadband Services  
 Business Unit Originator: Kevin Garland

RAC Analyst: David Crews  
 Investment Type: Equity

### BUSINESS

	NA	Poor	Fair	Good	VGood	Excellent
Management Experience – High Growth				X		
Management Experience - Knowledge						X
Size of Market					X	
Value Proposition					X	
Business Model						X
Assets					X	

#### 1) Management Experience – High Growth

Comments: The management of this company has not built a company before and not one with the projected growth of this company. Management has built a strong technical product that is relied on to drive the growth.

#### 2) Management Experience - Knowledge

Comments: Avici is an engineering focused company. They have developed a strong technical product. Of the company employees 110 out of 140 are engineers.

#### 3) Size of Market

Comments: Routers form a significant part of the internet backbone hardware. Router growth will increase at the same speed as use of the internet. The current infrastructure is based on slower routers than Avici's product and is not expected to be able to support the increase in internet traffic. The market for terabit routers is estimated to be \$15 billion per year by 2003 by Ryan Hankin Kent, an industry consulting firm

#### 4) Value Proposition

Comments: Gross margins for these routers are expected to be 60% which is consistent with CSFB estimates for Juniper. The anticipated growth in demand is approximately 100% per year after 2000 which should prevent margins from collapsing in the near term

#### 5) Business Model

Comments: The scalability of Avici's routers allow a network to be scaled easily based on traffic, in a simpler manner, and at a reduced cost. Avici uses a base unit with modules. As demand increases, additional modules are added. By the time a new base unit needs to be added, the Avici router can handle 8 to 10 times the initial demand

#### 6) Assets

Comments: The company has completed some testing and is currently finishing its testing with other carriers. The product's technical design and current state of development are expected to hold significant value to an established telecommunications hardware company

### PORTFOLIO

	Market	Cost	Public %	Time to IPO	Time to Exit
<b>Content</b>					
Origination (3)	12 million	12 million	0%	2 <sup>nd</sup> /4 <sup>th</sup> Q 2000	2 <sup>nd</sup> Q 2001
Hosting					
Facilitators	3 million	3 million	0%	2 <sup>nd</sup> Q 2000	4 <sup>th</sup> Q 2000
<b>Network</b>					
Hardware (2)	13 million	13 million	0%	2 <sup>nd</sup> Q 2000	4 <sup>th</sup> Q 2000
Software	3 million	3 million	0%	4 <sup>th</sup> Q 2000	2 <sup>nd</sup> Q 2001
Infrastructure	5 million	5 million	0%	3 <sup>rd</sup> Q 2000	1 <sup>st</sup> Q 2001
Services	10 million	10 million	0%	2 <sup>nd</sup> Q 2000	4 <sup>th</sup> Q 2000
<b>Total</b>	<b>\$46 million</b>	<b>\$46 million</b>			
	41	41			

**M-2**

EC004402077

# ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

<b>DEAL NAME:</b> EECC Genesis Power/GE Turbines Counterparty: GE Capital Corp. Business Unit: Enron Engineering & Construction Co. Business Unit Originator: Dick Westfahl <input type="checkbox"/> Public <input checked="" type="checkbox"/> Private <input checked="" type="checkbox"/> Merchant <input type="checkbox"/> Strategic <input checked="" type="checkbox"/> Conforming <input type="checkbox"/> Nonconforming	Date DASH Completed: 3/21/00 RAC Analyst: Josephine Lin Investment Type: Equity Capital Funding Source(s): Balance Sheet Expected Closing Date: 03/15/00 Expected Funding Date: 04/15/00 Board Approval: <input checked="" type="checkbox"/> Pending <input type="checkbox"/> Received <input type="checkbox"/> Denied <input type="checkbox"/> N/A
RAC Recommendation: <input checked="" type="checkbox"/> Proceed with Transaction <input type="checkbox"/> Returns below Capital Price <input type="checkbox"/> Do not Proceed	

## APPROVAL AMOUNT REQUESTED

Enron Engineering and Construction Company, Inc. ("EECC") requests approval to make payments towards the purchase of four 7FA turbines and two 185 MW STG Steam turbines from General Electric Company, Inc. ("GE"). The total purchase price for the turbines is \$190.26 million; however, initial approval is being sought for EECC to make the installment payments payable to GE for the period of February 2000 through November 2000. Prior to November 2000, if EECC has not sold the turbines to GenPower, LLC ("Genpower"), EECC will seek approval to make the remaining payments to GE. The approval request is based on the maximum capital at risk in November 2000 whereby GenPower does not purchase the turbines from EECC and EECC cannot utilize the turbines in a project of its own, EECC elects to cancel the turbine purchase resulting in GE's assessment of a termination penalty of \$72.58 million; the expected amount of capital at risk is considerably lower than this maximum amount (approximately \$19.5 million).

The turbines are earmarked for use in two U.S. merchant power projects being developed by GenPower. In the unlikely event that GenPower is unable to timely arrange adequate project financing for the power plants, an EECC subsidiary or Westdeutsche Landesbank ("West LB"), through an off-balance sheet structure, will receive title for these turbines via an assignment approved by GE. EECC has a high level of confidence that if GenPower cannot arrange satisfactory project financing for these projects, the 7FA turbines can be utilized in one of the many third party power construction projects being pursued by EECC and its affiliate at this time given the turbines advantageous delivery schedule in the third quarter of 2001.

Capital Commitment      \$72.58 million \*

\* In addition, certain ENE guarantees will be required to support the off-balance sheet financing of the turbines.

## EXPOSURE SUMMARY (\$000,000's)

This Transaction	72.58
Remaining Pmt. Obligation to GE	117.68
Power Island 9FA Turbines	313.00
7FA & Steam Turbine	<u>90.00</u>
Total EECC Turbine Exposure	593.26
Total Enron Affiliate Turbine Exposure	<u>570.00</u>
<b>Grand Total Enron Turbine Exposure</b>	<b><i>\$1,163.26 **</i></b>

\*\*Refer to Exhibit I for detail on Enron's long turbine position.

## DEAL DESCRIPTION

EECC proposes to purchase four 7FA turbines and two 185 MW Steam Turbines (the "Equipment") to fulfill its expected demand for turbines to be utilized in a project to be constructed by an EECC affiliate. The EECC affiliate expects to construct two merchant plant projects in Dell, Arkansas and McAdams, Mississippi (the "Projects") being developed by GenPower. GenPower currently owns the rights to the delivery slots (July through October, 2001) for these turbines via its Turbine Purchase Agreement with GE; GenPower's first installment payment under the agreement was due in February, 2000. However, GenPower has not closed on the project financing for the merchant power plants and therefore does not have the ability to make the payments to GE under their contract. As such, GenPower, GE and EECC have negotiated to assign GenPower's purchase rights to these turbines to EECC or an EECC designee (West LB). Refer to Exhibit II for EECC's Termination Payment Schedule for the turbines.

As compensation for agreeing to purchase the turbines from GE and committing to GenPower to utilize the turbines in the company's Arkansas and Mississippi projects if financing is arranged by October 31, 2000, EECC's affiliate, National Energy Production Corporation ("NEPCO"), will obtain the exclusive right to negotiate with GenPower for turnkey EPC contracts for the projects through May 31, 2000. The total construction value of the two projects is estimated to be in the range of \$425 million to \$450 million. NEPCO anticipates negotiating a Lump Sum contract price on an open book basis at cost, plus 1%

EC004402078



**RAC Deal Approval Sheet****Deal Name: EECC Genesis Power/ GE Turbines**

contingency plus a 6% fee, resulting in an imbedded EPC profit in the range of \$24 million to \$30 million. The deterministic IRR for EECC's expected scenario where NEPCO obtains both EPC contracts with the expected margins is 186%.

If NEPCO and GenPower cannot reach agreement on the terms of the EPC contract by the end of May 2000, GenPower may pursue negotiations with other third party contractors. In this scenario, EECC may, at its sole discretion, cease to make payments for the steam turbines only at this point. Upon the earlier of October 31, 2000 or upon achievement of financial close of the project financing utilizing a third party EPC contractor other than NEPCO, GenPower may purchase the rights to the turbines from EECC for a price equal to all deposits and progress payments made by EECC to GE to date plus interest on such payments accruing at a rate of 10% per annum plus one million dollars per turbine. The deterministic IRR for this scenario is 97 %.

If, after October 31, 2000, GenPower has (i) not achieved financial closure and (ii) provided to NEPCO an effective Notice to Proceed under executed EPC contracts for the projects, or executed mutually acceptable EPC contracts for other GenPower sites under development, EECC has the right to utilize the turbines at its sole discretion. Assuming EECC or its affiliate contracts for a project that can utilize the gas turbines reasonably within the same time frame as the GenPower projects, the deterministic IRR for this scenario is 110%.; This assumes the steam turbines are cancelled in June 2000, resulting in a \$6.2 million termination payment to GE.

In the event GenPower does not reach financial close on these projects by October 31, 2000, NEPCO/EECC are confident that the "F" class turbines can be placed in one of five other projects for which EPC contracts are being negotiated (refer to Exhibit III for details on these projects). The strong demand for "F" class turbines is expected to exceed market availability until third quarter, 2003. As such, the availability of these turbines in the third quarter of 2001 makes them valuable assets to EECC; owning the rights to the turbines is expected to give rise to opportunities to participate in other domestic and international projects if the turbines are not used in the GenPower projects.

This particular "F" model is in high demand presently, due to its low Nitrogen Oxide ("NOx") emission capabilities. It is a multi-use gas turbine that can be used in peaking or combined cycle mode and can be retrofitted for various special purpose applications and is comparable with various steam turbine sizes. Other parties approaching GE today, in particular for the "7F" class turbines can expect to wait until the second quarter of 2003 for delivery of equipment.

The total purchase price of these assets is proposed to be funded through an off-balance sheet arrangement with West LB, one of Enron's tier one lenders. By having West LB purchase these assets, the debt associated with these assets, subject to the concurrence of Arthur Andersen, will not be recorded on Enron's balance sheet. The West LB arrangement will grant Enron a continuous fixed price purchase option for these assets. Certain guarantees from Enron Corp. to West LB are integral elements of this structure and the approval of these Enron guarantees are requested as part of this DASH. The financing structure, if obtained, will maintain maximum accounting flexibility, minimize the funding cost while keeping the turbines secured through a parent guarantee for the purchase price provided by Enron.

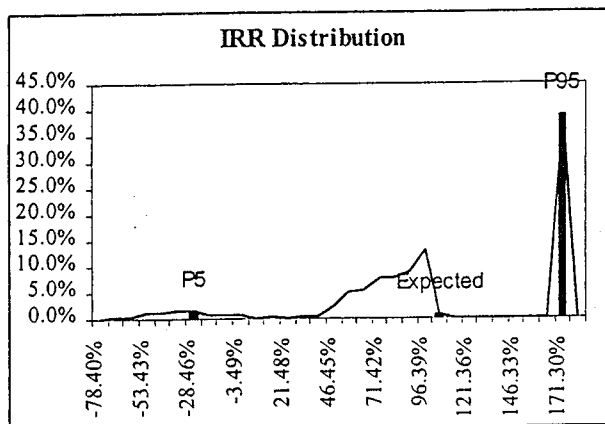
**TRANSACTION SOURCES AND USES OF FUNDS**

	<u>Sources</u>		<u>Uses</u>
Enron Balance Sheet	\$72.58	Capital Expenditure	\$72.58
Total	\$72.58		\$72.58

**RETURN SUMMARY (Based on the full turbine cost of \$190.26 million)**

<u>Return Components:</u>	<u>PV @ Capital Price (\$000s)</u>	<u>Cumulative IRR %</u>	<u>Capital Price Components</u>	
Cash Outflows	(\$262,977)	N/A	Risk free rate (%):	6.30%
Fees		N/A	Country Premium (%):	0.00%
EPC Contract CF*	\$228,914	81.82%	Equity Premium (%):	5.02%
Turbine CF*	\$57,228	20.45%	Project/Liquidity Premium (%):	8.68%
<b>Total NPV</b>	<b>\$23,166</b>	<b>102.27%</b>	<b>RAC CAPITAL PRICE:</b>	<b>20.00%</b>

\*The return summary is based on RAC estimates of probabilistic outcomes on four different scenarios.



**TRANSACTION UPSIDES/OPTIONALITY** – GenPower has delivery slot options for an additional three identical 7FA/185 MW STG turbine packages. The first slot is March 2002, the second slot is March 2003, and the third slot is March 2004. Completing this transaction allows Enron an opportunity to negotiate deals similar to the above, or negotiate the assignment of these turbines outright to Enron which could be used as a marketing lever for EECC /NEPCO third party projects or Enron developed projects.

**EXIT STRATEGY (Merchant investments only)**

In the event the proposed projects do not transpire, EECC intends to use the Equipment for other anticipated projects such as the NESCO, SUMAS or COGENTRIX projects. Refer to Exhibit III for the project details.

**RISK MATRIX**

DESCRIPTION	MITIGATION/COMMENTS
<p><b>Long position in 60 HZ Turbine Market (North/South America)</b></p> <p>Risk that GenPower does not achieve financial closure on projects and Enron retains ownership of turbines.</p>	<p>GenPower is actively negotiating with Credit Suisse First Boston ("CSFB") on the terms for the interim construction financing for three plants (McAdams, Dell EW Frankfurt). CSFB participated in the similar financing of a 540 MW plant developed by GenPower and GE in 1998. GenPower also has a draft Tolling Agreement with Coral Energy, LLC, a subsidiary of Royal Dutch Shell, to provide the fuel and market the power from the three plants. Although GenPower anticipates financial close to take place in June 2000, it would appear this is an aggressive time frame given the early stage of negotiations for the construction financing and key project agreements. As such, there is a moderately high risk that the projects will not be financed and EECC will have to utilize the turbines in one of its own construction projects.</p> <p>Enron's construction businesses are confident that the gas turbines can be deployed on a future construction project as these turbines are a common size used on many North American and South American power projects. These turbines could probably be utilized on one of several projects that NEPCO is bidding or negotiating such as the NESCO, SUMAS or COGENTRIX projects. However, placing the steam turbines will be more difficult than placing the gas turbines since they are used only on combined cycle projects.</p>

<p><b>Potential Termination Payments on Steam Turbines</b></p>	<p>It is expected that the terms and conditions for these acquisitions of turbines will be consistent with other recent acquisitions from GE. EECC will have the right to cancel the turbine contract based on a cancellation cost payment schedule. Cancellation costs escalate monthly during the 25-month construction schedule. Termination charges payable to GE for the period of February through November 2000 equal 31% (\$59.4 million) of the total contract value assuming the steam turbines are cancelled in June 2000. The termination payment in <i>June 2000</i> for the steam turbines is <i>\$6.2 million</i> increasing to <i>\$19.5 million in November 2000</i>. The total termination payments in November 2000 for all turbines is \$72.58 million. If the termination notice for the steam turbines is not given until after October 31, 2000, the final date that GenPower can elect to purchase the turbines from EECC, this \$19.5 million termination penalty would apply.</p> <p>The existing Letter of Intent between EECC and GenPower does not specifically address GenPower's obligation to reimburse EECC for termination charges paid to GE in conjunction with these turbines. As a condition of proceeding with this transaction, EECC will require GenPower to agree to amend the Letter of Intent to obligate GenPower to pay such charges. Even with these amendments, EECC will only have recourse against GenPower for these termination fees <i>if</i> GenPower elects to pay the contractual "Assignment Purchase Price" for the turbines prior to October 31, 2000 included in which will be reimbursement of any termination charges EECC has incurred. If GenPower is not successful in arranging financing, EECC will have to offset any termination charges incurred against future EPC profits from other projects.</p>
<p><b>Financing risk</b></p>	<p>It is EECC's intent to pursue an off balance sheet financing structure with West LB for the turbine purchase. Arthur Andersen ("AA"), Enron's independent accountants, must review the structure and concur with the off balance sheet treatment of the turbine financing. If AA cannot complete their review within the proposed three week closing timeframe and GE will not agree to extend the closing date, or if AA does not concur with the off-balance sheet treatment for the turbine financing, the turbines will have to be financed on Enron's balance sheet. The fully funded obligation will total \$190.26 million; it should be noted, however, that upon a sale of the turbines to GenPower or another third party, both the turbines and the related debt will move off Enron's balance sheet.</p>
<p><b>Assignment</b> Risk that EECC will not be able to use the turbines if the current projects do not close.</p>	<p>It is expected that the terms and conditions for these acquisitions of turbines, including transfer and assignment rights, will be consistent with other recent acquisitions from GE. EECC will negotiate with GE to use the turbines on other Enron projects and to resell the turbines to another user in the event that Enron is unable to utilize the turbines in a project. EECC will require the right to assign the warranties to any projects that Enron owns or builds.</p>

EC004402081

**KEY SUCCESS FACTORS**

	NA	Poor	Excellent
Core Business			X
Strategic Fit			X
Upside Potential			X
Management	N/A		
Risk Mitigation		X	

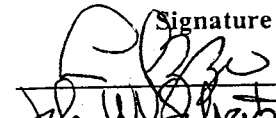
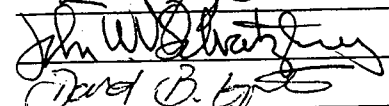
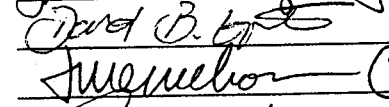
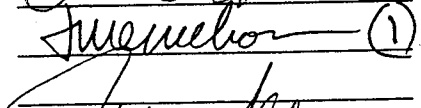
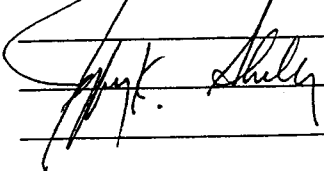
**OTHER RAC COMMENTS:**

RAC Underwriting recommends approval of EECC's request to purchase the gas turbines and increase Enron Corp.'s long position in turbines. This recommendation is based on the high demand in the market for the "F" class turbines with availability in this advantageous delivery timeframe of the second and third quarters of 2001. However, the two 185 MW STG steam turbines are not in high demand; EECC's downside risk is that GenPower and EECC cannot reach agreement on the EPC contract negotiations giving rise to GenPower's right to negotiate with third party contractors. EECC's first available opportunity to cancel the steam turbines, at it's sole discretion, will be June 2000 potentially resulting in the payout of a termination payment of \$6.2 million to GE and EECC may have reason to not terminate these steam turbines until final negotiations with GenPower have concluded on or before October 31, 2000, potentially increasing this payment to \$19.5 million. EECC is actively negotiating with GE to reduce or eliminate the termination charges in the first five months of the turbine purchase contract but there is no guaranty the termination fees will be reduced.

EECC will not have recourse against GenPower for the termination payments paid to GE in the scenario where GenPower cannot arrange financing by October 31, 2000 and EECC must obtain another EPC project to utilize the gas turbines. In this scenario, the termination payment will negatively impact EECC's return on the EPC contracted project in which the gas turbines are placed. However, EECC and its affiliate NEPCO are confident that an EPC project with an equivalent or greater profit margin than the proposed EPC contract with GenPower is attainable assuming one or more of the EPC projects being negotiated (Exhibit III) reaches closure as projected.

It should be noted that while the expected return on this transaction considerably exceeds the capital price, this transaction (i) adds to Enron's long turbine position, albeit with largely with highly desirable 7FA gas turbines (but also with less desirable steam turbines), (ii) the range of expected returns on this investment is broad, with a significant percentage of negative IRR results as well as 100%+ IRR outcomes, and (iii) there is a greater probability than in other turbine purchases that this acquisition will be financed on Enron's balance sheet.

**APPROVALS**

	Name	Signature	Date
Regional Mgmt.	Larry Izzo		
Legal	John Schwartzburg		3 Mar '00
RAC Management	Rick Buy / David Gorte		6 March 2000
Enron <del>Capital</del> <sup>Global Finance</sup> Management	Andy Fastow / Jeff McMahon	 (1)	
ENE Management	Jeffrey Skilling		3/7/00
ENE Management	Jeff Skilling/Joe Sutton		

(1) Contingent Approval from EGF on using off balance sheet structure. If turbines are purchased on balance sheet, it is unlikely that they can be moved off. JIM

EC004402082

**Global Finance Summary (addendum to DASH)****1. Transaction Summary**

	Amount (\$000)
Total Deal/Project Capital Commitment	\$72.583
Less: Financings	-0-
Less: Syndications	-0-
Net Enron Investment	<u>\$72.583</u>

**2. Investment terms and pricing:**☐ Market☐ Above Market ☐ Below Market

Describe (if necessary): N/A

**3. Financing terms and pricing:**☐ Market☐ Above Market ☐ Below Market

Describe (if necessary): Initial pricing discussion with West LB indicated that they would proceed with the Genesis turbine transaction using the same pricing as the previous deals since we are now working on the financing structure to reduce West LB's holdings under the various turbine projects:

Rate: Libor + 62.5 bps – Enron's 364 day funded revolver price plus 7.5 bps  
 Upfront Fee: \$50,000 inclusive of legal

However, this pricing has not been approved by West LB's senior management. On the Brazil turbine financing still under negotiations, the upfront fee is approximately \$200,000.

**4. Legal or practical liquidity restrictions:**☒ Unrestricted☐ Legally Restricted☐ Practically Restricted

Describe (if necessary):

**5. Any recourse to Enron (other than investment):**☒ Recourse☐ No Recourse

Describe (if any): Enron parent guaranty to West LB.

**6a. Business unit intent to syndicate:**☒ None☐ Partial☐ All

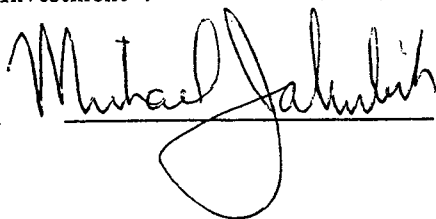
Describe (if necessary):

**6b. Intended Enron hold period: N/A****6c. Likely Syndication Market:**☐ Industry/Strategic Partner☐ Direct Private Equity☐ Capital Markets☐ JEDI 1☐ JEDI 2☐ Enserco☐ LJM 1 or 2☐ Condor☒ Other: Banks☐ Margaux

ENA can give no assurance that we will be successful in placing this investment in the WestLB structure.

**6d. Is this a JEDI 2 "Qualified Investment"?**☐ Yes☒ No

Global Finance Representative:



EC004402083

TABLE OF EXHIBITS

EXHIBIT I  
EXHIBIT II  
EXHIBIT III

Enron's Long Turbine Position  
Turbine Termination Payment Schedule  
Potential EPC Projects

EC004402084

**EXHIBIT I  
ENRON'S LONG TURBINE POSITION**

<b>Confidential</b>					
1 March 2000 5:15 pm F.Kelly6-6207					
<b>Item</b>	<b>Turbine (Scope/ Cycle)</b>	<b>Delivery Date(s)</b>	<b>Total MW ISO</b>	<b>Total Capex Commitment \$MM</b>	<b>Possible Project Site</b>
	<b>ENA</b>				
1	1 X West 501D5A Simple Cycle	May 30, 2000	122	\$24	ENA - Electrocities, N. Carolina (Remove from "long" list soon when Electrocities confirmed)
2	24 X GE LM6000	July2000 thru April 2001	1,164	\$335	Qty 2 - ENA/Electrocities Qty 1 - ENA/Las Vegas Co-Gen Qty 18 - ENA Other Qty 3 - ESA Possibly
3	1 X GE 7FA Simple Cycle (Cogen Tech Machine)	Aug 2000	156	\$35	ENA - East Cost Power - Linden 6 Confirm GE Re-Structuring Enron Partial Owner
4	1 X GE 7FA Simple Cycle (Cogen Tech Machine)	Aug-Sept 2000	156	\$35	- ENA - Mid West (Peoples) - One of the three orig Cogen Tech Machines
5	1 X GE 7FA Combined Cycle (CogenTech Machine; STG not ordered yet)	Oct 2000	171	\$31	ENA - Vitro
6	2 X Used ABB11N1 Simple Cycle	Avail Now	166	\$26	- Enron Canada Sarnia Peaker Proj - Sarnia DASH was in process
7	2 X Used GEC Fr 6B	Avail Now	60 1,995	\$13 \$499	Available
	<b>CALME</b>				
8	9 X Pwr Barges (Philip GE Fr 6B)	Avail Now	270	\$72	APACHI - Lagos
	<b>EECC</b>				
9	2 X GE 7FA Comb Cycle (plus one steam turbine; old Naco machines)	Qty 1 - Aug 2001 Qty 1 - Sept 2001 STG - Sept 2001	480	\$90	- ENA - Several Florida Projects - NESCO
10	1 X Siemens V94.2 + 1 Toshiba STG + HRSG 50 hz application	Nov 2001	240	\$64	Croatia - Siemens (et all) released - Initial DASH (w/ cancellation risk signed) - EEL has t
11	3 X 9FA STAG Power Islands Combined Cycle 50 hz application	Qty 1 - Oct 2001 Qty 1 - Nov 2001 Qty 1 - Dec 2001	<u>780</u> 1,500	<u>\$249</u> \$402	EEL - Spain Arcos (Remv from "long" list when firm)
<b>Total (Long)</b>			3,765	\$973	

EC004402085

EXHIBIT II (A)

EECC  
Termination Schedules  
McAdams Site

Month	Termination	GT 1	GT 1 \$\$\$	GT2	GT 2 \$\$\$	Stm 1	Stm 1 \$\$\$	Cumulative \$\$\$
Feb-00	Signed LOC	7.50%	\$2,760,281	7.50%	\$2,760,281	7.50%	\$1,614,189	\$7,134,750
Feb-00		8.77%	\$3,227,688	8.77%	\$3,227,688	8.77%	\$1,887,525	\$8,342,901
Mar-00		10.40%	\$3,827,589	10.40%	\$3,827,589	10.40%	\$2,238,342	\$9,893,520
Apr-00		10.80%	\$3,974,804	10.80%	\$3,974,804	10.80%	\$2,324,432	\$10,274,040
May-00		11.10%	\$4,085,215	11.10%	\$4,085,215	11.10%	\$2,389,000	\$10,559,430
Jun-00		14.80%	\$5,446,954	14.80%	\$5,446,954	14.80%	\$3,185,333	\$14,079,240
Jul-00		20.00%	\$7,360,748	20.00%	\$7,360,748	20.00%	\$4,304,504	\$19,026,000
Aug-00		30.00%	\$11,041,122	30.00%	\$11,041,122	24.00%	\$5,165,405	\$27,247,649
Sep-00		32.00%	\$11,777,197	32.00%	\$11,777,197	29.00%	\$6,241,531	\$29,795,924
Oct-00		34.00%	\$12,513,272	34.00%	\$12,513,272	40.00%	\$8,609,008	\$33,635,551
Nov-00		36.00%	\$13,249,346	36.00%	\$13,249,346	51.00%	\$10,976,485	\$37,475,178
Dec-00		38.00%	\$13,985,421	40.00%	\$14,721,496	59.00%	\$12,698,287	\$41,405,204
Jan-01		40.00%	\$14,721,496	40.00%	\$14,721,496	70.00%	\$15,065,764	\$44,508,756
Feb-01		40.00%	\$14,721,496	40.00%	\$14,721,496	80.00%	\$17,218,016	\$46,661,008
Mar-01		40.00%	\$14,721,496	40.00%	\$14,721,496	83.00%	\$17,863,692	\$47,306,684
Apr-01		40.00%	\$14,721,496	40.00%	\$14,721,496	87.00%	\$18,724,592	\$48,167,584
May-01		40.00%	\$14,721,496	40.00%	\$14,721,496	93.00%	\$20,015,944	\$49,458,936
Jun-01		40.00%	\$14,721,496	40.00%	\$14,721,496	95.00%	\$20,446,394	\$49,889,386
Jul-01	Gas 1 Shipment	100.00%	\$36,803,740	40.00%	\$14,721,496	98.00%	\$21,092,070	\$72,617,306
Aug-01	Gas 2 / Steam Shipment	100.00%	\$36,803,740	100.00%	\$36,803,740	100.00%	\$21,522,520	\$95,130,000
Sep-01	30 Days After Shipment	100.00%	\$36,803,740	100.00%	\$36,803,740	100.00%	\$21,522,520	\$95,130,000

EC004402086



**EXHIBIT II (B)**

**EECC  
Termination Schedules  
Dell Site**

<u>Month</u>	<u>Termination</u>	<u>GT 1</u>	<u>GT 1 \$\$\$</u>	<u>GT2</u>	<u>GT 2 \$\$\$</u>	<u>Stm 1</u>	<u>Stm 1 \$\$\$</u>	<u>Cumulative \$\$\$</u>
Feb-00	Signed LOC	7.50%	\$2,760,281	7.50%	\$2,760,281	7.50%	\$1,614,189	\$7,134,750
Feb-00		8.77%	\$3,227,688	8.77%	\$3,227,688	8.77%	\$1,887,525	\$8,342,901
Mar-00		10.40%	\$3,827,589	10.40%	\$3,827,589	10.40%	\$2,238,342	\$9,893,520
Apr-00		10.80%	\$3,974,804	10.80%	\$3,974,804	10.80%	\$2,324,432	\$10,274,040
May-00		11.10%	\$4,085,215	11.10%	\$4,085,215	11.10%	\$2,389,000	\$10,559,430
Jun-00		14.80%	\$5,446,954	14.80%	\$5,446,954	14.80%	\$3,185,333	\$14,079,240
Jul-00		20.00%	\$7,360,748	20.00%	\$7,360,748	20.00%	\$4,304,504	\$19,026,000
Aug-00		30.00%	\$11,041,122	30.00%	\$11,041,122	24.00%	\$5,165,405	\$27,247,649
Sep-00		32.00%	\$11,777,197	32.00%	\$11,777,197	29.00%	\$6,241,531	\$29,795,924
Oct-00		34.00%	\$12,513,272	34.00%	\$12,513,272	36.00%	\$7,748,107	\$32,774,650
Nov-00		36.00%	\$13,249,346	36.00%	\$13,249,346	40.00%	\$8,609,008	\$35,107,701
Dec-00		38.00%	\$13,985,421	40.00%	\$14,721,496	51.00%	\$10,976,485	\$39,683,402
Jan-01		40.00%	\$14,721,496	40.00%	\$14,721,496	59.00%	\$12,698,287	\$42,141,279
Feb-01		40.00%	\$14,721,496	40.00%	\$14,721,496	70.00%	\$15,065,764	\$44,508,756
Mar-01		40.00%	\$14,721,496	40.00%	\$14,721,496	80.00%	\$17,218,016	\$46,661,008
Apr-01		40.00%	\$14,721,496	40.00%	\$14,721,496	83.00%	\$17,863,692	\$47,306,684
May-01		40.00%	\$14,721,496	40.00%	\$14,721,496	87.00%	\$18,724,592	\$48,167,584
Jun-01		40.00%	\$14,721,496	40.00%	\$14,721,496	93.00%	\$20,015,944	\$49,458,936
Jul-01		40.00%	\$14,721,496	40.00%	\$14,721,496	95.00%	\$20,446,394	\$49,889,386
Aug-01		40.00%	\$14,721,496	40.00%	\$14,721,496	98.00%	\$21,092,070	\$50,535,062
Sep-01	GT 1 - STM Shipment	100.00%	\$36,803,740	40.00%	\$14,721,496	100.00%	\$21,522,520	\$73,047,756
Oct-01	GT 2 Shipment	100.00%	\$36,803,740	100.00%	\$36,803,740	100.00%	\$21,522,520	\$95,130,000
Nov-01	30 Days After Shipment	100.00%	\$36,803,740	100.00%	\$36,803,740	100.00%	\$21,522,520	\$95,130,000

EC004402087

EXHIBIT III										
Potential NEPCO uses for GE 7FA Turbines										
	# of Gas Turbines	# of Steam Turbines	MW	Contract Value	Construction Profit	Start	Completion	Turbine Delivery Date	Status	
WESCO, Frederickson, WA	2	1	500	250,000,000	15,000,000	May-00	Jul-02	Aug-01	NEPCO awarded project pending turbine availability.	
WESCO, Goldendale, WA	1	1	250	98,000,000	8,000,000	Jun-01	Aug-03	Sep-02	Project under development. Gas agreement in place. Permitting in place.	
Cogentrix, Southaven	3	3	800	320,000,000	18,000,000	Apr-00	Jun-02	Mar-01	NEPCO to negotiate project on an exclusive basis.	
Cogentrix, Sterlington	3	3	800	320,000,000	18,000,000	Sep-00	Oct-02	Aug-01	NEPCO negotiate project on an exclusive basis.	
Cogden, Burney, CA	2	1	500	260,000,000	15,000,000	Sep-00	Oct-02	Oct-01	RFP due in March, 2000	

EC004402088

**M-3**

EC004402089

# ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

**DEAL NAME:** Extension of Demar Liquidity Agreement  
**Counterparty:** Demar Instaladora y Constructora, SA  
**Business Unit:** Enron Engineering & Construction Co.  
**Business Unit Originator:** J. Martin  
☒ Public ☐ Private  
☒ Merchant ☐ Strategic  
☒ Conforming ☐ Nonconforming

**Date DASH Completed:** 3/17/00  
**RAC Analyst:** N/A  
**Investment Type:** Debt  
**Capital Funding Source(s):** Balance Sheet  
**Expected Closing Date:** 1/31/00  
**Expected Funding Date:** 1/31/00  
**Board Approval:** ☐ Pending ☐ Received ☐ Denied ☒ N/A

**RAC Recommendation:** ☒ Proceed with Transaction ☐ Returns below Capital Price ☐ Do not Proceed

## APPROVAL AMOUNT REQUESTED (In 000's)

Enron Engineering & Construction Company ("EECC") requests approval to extend the maturity date and modify the monthly maximum available facility amounts on an existing revolving line of credit being provided to Demar Instaladore Constructora S.A. De C.V. ("Demar"). The loan modifications are needed as a result of valid weather delays which prevented Demar's timely completion of certain construction milestones under the EPC 4 contract with Pemex. Upon full completion of each milestone, Pemex remits milestone payments, EECC's primary source of repayment for the loan, to an escrow account controlled by EECC. As compensation to EECC for the loan amendments, Demar will pledge the construction revenues from a contract with Solar Turbine totaling \$12 million.

Capital Commitment	\$ 18,100*	* As of 1/24/00, EECC has advances outstanding of \$12.5 million to Demar for expenses incurred on EPC 4. EECC has also advanced \$4.6 million to Demar for expenses on EPC 43/50 which is performing. For cross-collateralization purposes, the two facilities have been amalgamated into one commitment with two tranches; repayment schedules and interest rates are unique to each tranche.
--------------------	------------	---

## EXPOSURE SUMMARY (In 000's)

This transaction:	\$ 18,100
Total	\$ 18,100
Total Contracts	\$ 18,100

## DEAL DESCRIPTION

Enron Engineering & Construction Company ("EECC") seeks to extend the maturity date and modify the reducing maximum available facility amounts on an revolving line of credit provided to Demar, a Mexican construction company with an E-Rating of 10 (B-). The current maximum facility amount is \$18.1million. As security for the line of credit, Demar assigned the proceeds from the company's ongoing construction contracts with Petroleos Exploration Y Production ("PEP"), a wholly owned subsidiary of Petroleos Mexicanos ("Pemex") rated BB/ Ba1 by Standard & Poor's and Moody's, respectively, to perform the engineering, procurement and fabrication services for four Pemex offshore and onshore hookup projects, "EPC 4", "Atasta", "Cuidad", ("Demar 1") and "CA-AC-4 Offshore Hookup ("Demar 2"). The original liquidity agreement incorporated the Demar 1 projects. It was later amended to incorporate the Demar 2 project in order to cross collateralize the security between all of the projects. As such, distinct interest rate and separate set of dates and amounts associated with the maximum available facility amount for the Demar 2 project.

EECC will not amend any terms related to the Demar 2, as it is on schedule. However, weather conditions have caused rough seas which have delayed work on the EPC-4 barge by two months since this agreement was extended in October 1999 due to similar problems. The period of delay will likely increase further as the Gulf of Mexico waters continue to be very rough. These weather delays are beyond Demar's control. As a result of these delays, Demar's progress payments from PEP have further slipped the forecasted time table and therefore the company will not be able to pay down the outstanding principal, accrued interest, and a \$5 million service fee, in accordance with the reducing facility caps. Interest accrues on facility advances at a rate of 10% fixed per annum. All progress payments from PEP flow through an Enron controlled Mexican bank account and are applied against the credit facility or disbursed to Demar at EECC's discretion.

EC004402090

- (1) EECC is requesting approval to amend the maximum facility amounts on the outstanding principal as follows:

<u>EFFECTIVE DATE</u>	<u>(DEMAR 2) FACILITY AMT.</u>	<u>CURRENT (DEMAR 1) FACILITY AMOUNT</u>	<u>REVISED (DEMAR 1) FACILITY AMOUNT</u>	<u>REVISED COMBINED FACILITY AMOUNT*</u>
11/30/99	\$ 4.6mill.	\$17.5mill.	\$17.5mill.	\$22.1mill.
12/23/99	\$ 4.6mill.	\$13.5mill.	\$13.5mill.	\$18.1mill.
01/30/00	\$ 4.6mill.	\$ 3.5mill.	\$13.5mill.	\$18.1mill.
02/28/00	\$ 3.0mill.	\$-0-mill.	\$12.5mill.	\$15.5mill.
03/30/00	\$ 2.0mill.	\$-0-	\$ 11.0mill.	\$13.0mill.
04/30/00	\$ 1.0mill.	\$-0-	\$ 7.0mill.	\$ 8.0mill.
05/30/00	\$ -0-	\$ -0-	\$ 3.0mill.	\$ 3.0mill.
06/30/00	\$ -0-	\$ -0-	\$ -0-	\$ -0-

\* These caps are limited to the lesser of 75% of (remaining revenues – loans for outstanding fees – outstanding interest) or the maximum facility amount specified. No further advances under the credit facility will be allowed after 4/30/00. The outstanding principal balance will be reduced as payments are received from PEP. PEP final progress payments may lag behind the project work completion date (4/18/00) by as much as 45 to 60 days. All payments are expected to be received by the facility maturity date, 7/31/00.

- (2) EECC will maintain its security position with respect to all proceeds being remitted by PEP for the four contracts assigned to it as collateral. EECC will apply funds received in the escrow account in accordance with the required loan repayment schedule and disburse cash to Demar only for project related expenses. PEP proceeds received in the escrow account after 5/30/2000 will be applied as received against the outstanding principal under the credit facility. Also, no further escrow disbursements will be made to Demar after 4/30/2000 until all amounts owed EECC are paid including accrued interest and the \$5.0 million in fees associated with the Demar 1 deal which will be accounted for as a principal advance under the amended loan agreements.
- (3) Interest will accrue on Demar 1 & 2 advances on the credit facility at a 10% p.a. fixed rate., and 90 day libor +5%, respectively.
- (4) Advances from Enron to pay its \$5 million fee on Demar 1, will trigger a default interest rate of 15% if not paid by 7/31/00. Interest and fees are paid current related to the Demar 2.
- (5) The revised maturity date will be 7/31/00.

#### TRANSACTION SOURCES AND USES OF FUNDS (\$000s)

	<u>Sources</u>		<u>Uses</u>
Enron Balance Sheet	\$18,100	Working Capital Advances	\$18,100
Total	<u>\$18,100</u>	Total	<u>\$18,100</u>

#### TRANSACTION DISCUSSION

The status of the three PEP contracts assigned to EECC as collateral and the Solar Turbine contract is as follows:

<u>Project Name</u>	<u>Start Date</u>	<u>Contractual Completion Date</u>	<u>Projected Completion Date</u>
EPC 4	10/22/97	4/18/00	4/18/00
Atasta	6/29/98	9/26/99	Completed
Cuidad	6/29/98	6/27/00	6/27/00
CA-AC-4 Offshore Hookup	10/21/99	4/18/00	4/18/00
Solar Turbine (new collateral)	02/01/00	02/01/01	02/01/01

Demar has filed for an extension of the EPC 4 contract through May 1<sup>st</sup>. The turnkey project manager (Bechtel) has already approved previous change orders requests extending the contractual completion date through March 19<sup>th</sup> and is reviewing the additional extension request. However these extensions must be approved by PEP. PEP typically does not sign the final

**RAC Deal Approval Sheet**

*change order until completion of the job. EECC project management agrees that Demar has a valid claim and anticipates Pemex will ultimately approve the time extensions.*

**Deal Name: Extension of Demar Liquidity Agreement**

Assuming completion of the scheduled work, Demar expects to incur additional scheduled expenses totaling \$12 million on the projects and receive progress payments totaling \$40 million from PEP. EPC 4 and CA-AC-4 Offshore Hookup, which are the source projects for \$25 mill and \$12 mill respectively, are 94% and 54% complete respectively. The net project proceeds of \$27 million will be used to service Demar's obligations to EECC of approximately \$24 million with the residual amounts flowing back to Demar post EECC facility maturity date.

Pemex has a Standard & Poor's senior unsecured debt rating of "BB" which is also Standard & Poor's sovereign rating for Mexico. The Moody's Investors Services' senior unsecured debt rating for Pemex is "Ba1" (one notch better than the S&P rating) and the sovereign rating is "Ba1".

**RISK MATRIX (Maximum 5)**

DESCRIPTION	MITIGATION/COMMENTS
The risk the projects becomes profit neutral or unprofitable for Demar if PEP assesses Liquidated Damages against Demar for failing to reach the contract scheduled completion dates for the projects.	<p>Demar is contractually liable for liquidated damages ("LD's") of \$15,000 per each day late under the EPC 4 contract.. Demar has filed for an extension of the EPC 4 contract through May .1,2000 The turnkey project manager (Bechtel) has already approved previous change orders requests extending the contractual completion date through March 19,2000 and is reviewing the additional extension requests. However these extensions must be approved by PEP to be enforceable. PEP typically does not sign the final change order until completion of the job. EECC project management agrees that Demar has a valid claim and anticipates Pemex will ultimately approve the time extensions.</p> <p>The fact remains EECC's primary source of repayment, the contract revenues from PEP, may ultimately prove to be insufficient to repay Demar's full indebtedness to EECC if PEP does not approve the change orders and , as a consequence, LDs are assessed against Demar and netted against PEP's contract payment obligation under the EPC 4 contract. To partially mitigate this risk , EECC has obtained additional collateral coverage in the form of the assignment of proceeds (\$12 million) from Demar's contract with Solar Turbine.</p>

**RAC Deal Approval Sheet**
**Deal Name: Extension of Demar Liquidity Agreement**

Payment default risk in the event that Demar defaults on the PEP contracts	<p>Demar has successfully completed 32 construction contracts for Pemex in the past 10 years and is currently performing satisfactorily on these three contracts according to EECC who has spoken directly with PEP on this issue. EECC project management is providing consultation services to Demar and is working closely with the company to insure work progression remains on schedule going forward. However, EECC does not have a legal mechanism for stepping into Demar's shoes in the PEP contracts if Demar were to default on the contracts. The PEP contracts would likely be re-bid to other contractors to complete the work. PEP is only obligated to pay for actual work <i>completed in full</i>. Demar's successful performance of these contracts is critical to EECC's ability to receive full repayment for the Demar obligations in light of Demar's limited capacity to pay the obligations otherwise.</p> <p>EECC will control all payments remitted by PEP on the projects thus minimizing the chance for Demar to divert the proceeds to other uses. Additionally, Demar has pledged assets (a barge, houses) to EECC as additional collateral for the credit facility. Although EECC estimates the value of the assets is in excess of \$10 million, RAC assigns no value to the assets given the lack of valid recent independent appraisals for the collateral and given Enron Legal assessment of the difficulty associated with filing and perfecting a lien against property in Mexico.</p>
Foreign Currency Risk	<p>Demar's obligations to EECC are denominated in dollars. Approximately 65% (\$90mill.) of the total PEP contract revenues payable to Demar are denominated in dollars. Demar is able to increase the peso billings based upon increases in Mexican inflationary indexes. Actualization is standard in Pemex contracts to protect Mexican contractors against inflation. However, this mechanism does not protect the contractor in a scenario where the peso is devaluing at a faster rate than inflation is increasing. Given the short remaining term of the PEP contracts and the state of economic affairs in Mexico, the probability of extreme peso devaluation during the next 6 months is considered moderate at this time.</p>
Credit Risk of PEP	<p>The EPC 4 project is part of PEP's overall Cantarell project which is financed principally by the US Export / Import Bank, EXIM Bank of Japan and EXIM Bank of France.</p>

**KEY SUCCESS FACTORS**

	NA	Poor	Excellent
Core Business		X	
Strategic Fit		X	
Upside Potential			X
Management		X	
Risk Mitigation		X	

**OTHER RAC COMMENTS:** RAC recommends approval of the Demar credit facility amendments based on the resulting improvement in EECC's collateral position. EECC will obtain the assignment of proceeds from Demar's contract with Solar Turbine, which is projected to generate \$12 million in revenues over the next twelve months.

EC004402093

APPROVALS

Regional Mgmt.

EECC Legal

RAC Management

Enron Global Finance

ENE Management

Name

Signature

Date

Larry Izzo

John Schwartzenburg (Carol Sd.)

Dave Gorte

Andy Fastow/Jeff McMahon

Jeffrey Skilling / Joe Sutton

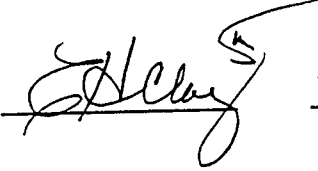
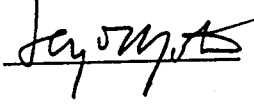
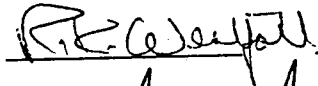
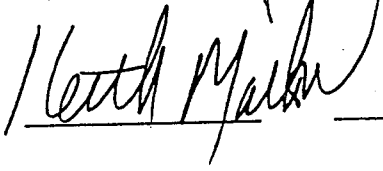
*[Handwritten signatures and dates follow]*

\* This is now a non-performing loan in the emerging market which would require repricing to get to market. See Finance Addendum for discussion of illiquidity.

Payment in full  
by 30 June 00

EC004402094



<u>NAME</u>	<u>TITLE</u>	<u>SIGNATURE</u>	<u>DATE</u>	<u>CHECK THOSE THAT APPLY</u>
Eddie Clay	VP Project Management Support		3/8/2000	<input type="checkbox"/>
Jerry Martin	VP Project Execution		19 Mar 00	<input type="checkbox"/>
Dick Westfahl	Sr.VP Business Development		3/8/00	<input type="checkbox"/>
Keith Marlow	VP Finance			<input type="checkbox"/>

EC004402095

# Global Finance Summary (addendum to DASH)

## 1. Transaction Summary

Total Deal/Project Capital Commitment  
Less: Financings  
Less: Syndications  
Net Enron Investment

Amount (\$000)
\$18,500
-0-
-0-
<u>\$18,500</u>

## 2. Investment terms and pricing:

☐ Market

☐ Above Market

☐ Below Market

Describe (if necessary): N/A

## 3. Financing terms and pricing:

☐ Market

☐ Above Market

☒ Below Market\*

Describe (if necessary): \* EE&CC originally believed that the pricing was above market due to a \$5.0MM fee to be received as part of this financing. However, as we originally stated, this fee is not received until the construction contract is completed, payment is received from Pemex, there has been no extreme peso devaluation, and our loan has been repaid. Additionally, because there have been construction delays, and Pemex could raise performance issues, it is now likely that there will not be monies left over to pay this fee. Therefore, additional Enron capital would be required to pay up-front fees to the market if we attempted a syndication.

## 4. Legal or practical liquidity restrictions:

☐ Unrestricted

☐ Legally Restricted

☒ Practically Restricted

Describe (if necessary): Limitations on Mexican debt liquidity, especially at this debt rating (E-Rating of 10 (B-)); and under these adverse circumstances.

## 5. Any recourse to Enron (other than investment):

☐ Recourse

☒ No Recourse

Describe (if any):

## 6a. Business unit intent to syndicate:

☒ None

☐ Partial

☐ All

Describe (if necessary):

6b. Intended Enron hold period: To maturity ( 07/31/00, previously 04/30/00).

## 6c. Likely Syndication Market:

☐ Industry/Strategic Partner

☐ Direct Private Equity

☐ Capital Markets

☐ JEDI 1

☐ JEDI 2

☐ Enserco

☐ LJM 1 or 2

☐ Condor

☐ Other: \_\_\_\_\_

☐ Margaux

## 6d. Is this a JEDI 2 "Qualified Investment"?

☐ Yes

☒ No

Global Finance Representative: \_\_\_\_\_

Signature

D. Herrick

Name (Printed)

03/21/00

Date

EC004402096

**M-4**

EC004402097

# ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

**DEAL NAME: Linden Six**

Counterparty: East Coast Power  
Business Unit: Enron North America  
Business Unit Originator: Richard A. Lydecker

☐ Public ☒ Private  
☒ Merchant ☐ Strategic  
☒ Conforming ☐ Nonconforming

Date DASH Completed: 02/09/00

RAC Analyst: M. Eichman, J. Soo, E. Pedersen

Investment Type: Equity

Capital Funding Source(s): JEDI II/Balance Sheet

Expected Closing Date: February 2000

Expected Funding Date: May 2000

Board Approval: ☐ Pending ☐ Received ☐ Denied ☒ N/A

RAC Recommendation: ☒ Proceed with Transaction ☐ Returns below Capital Price ☐ Do not Proceed

**APPROVAL AMOUNT REQUESTED**

Enron North America ("ENA"), through JEDI II's interest in East Coast Power ("ECP") requests approval to build, own and operate an additional 160 MW gas turbine adjacent to the existing facilities at Linden, New Jersey

Total Project Cost	\$94,200
JEDI II (51% ownership in ECP)	\$48,040*

\*Initial funding of the transaction will be from ECP's working capital facility. Permanent financing is contingent on a re-capitalization agreement between ECP and General Electric Capital Corp. ("GECC"). Once the agreement with TOSCO is signed for Linden Six, ECP will have 65 days to reach agreement with GECC or back out of the transaction. During this 65-day period, \$2.2 million in progress payments associated with the HRSG and transformers for Linden Six will be made by ECP. If ECP does not reach a tentative agreement with GECC on a re-capitalization, ECP can terminate the Linden Six transaction. TOSCO will then reimburse ECP for the \$2.2 million in expenditures through a \$1.1 million payment at termination and through increased steam sale purchases for the remaining amount over the subsequent year. If the re-capitalization with GECC does proceed, ENA expects to finance approximately 60% off-balance sheet through the re-capitalization, which is expected to occur in the second quarter.

**EXPOSURE SUMMARY**

JEDI II owns a 51% stake in ECP. Enron's indirect ownership in ECP is 25.5%.

Enron Exposure (Linden Six costs)	\$24,021
Existing exposure (ECP equity)	\$163,497

EC004402098

**DEAL DESCRIPTION**

ECP proposes to expand the existing facilities at the Bayway Refinery ("BR") in Linden, New Jersey with an additional 160 MW power generation facility. The Linden 6 expansion includes building and installing a dual fuel GE 7FA gas turbine with a HRSG and an interconnect to the Pennsylvania-New Jersey-Maryland grid ("PJM").

The expansion will become part of ECP's Linden generating facilities, which provide electricity to Consolidated Edison. Linden Six will sell the majority of its generating capacity to BR through a 17-year Energy Service Agreement ("ESA"). ECP will enter into an Engineering Procurement and Construction contract ("EPC") with NEPCO for the construction of Linden Six.

The primary value drivers in this deal will be the contractual cash flows received from BR, improvements to existing plant efficiencies, and merchant sales revenue. Any excess generating capacity will be dispatched and sold into PJM when market prices permit (about 30 MW in summer months based on monthly dispatch model).

The strategic benefits of this transaction are to: (i) Protect the QF status at existing plant, which would be jeopardized if TOSCO developed its own project/steam supply. A loss of QF status would decrease Con Ed revenues by 10% (about \$25-30 million per year) and adversely impact the PPA restructuring with Con Ed; (ii) Expansion of site, which gives ENA the option to develop a merchant plant to sell into New York City and/or to develop other project (TES & Gray Water) (iii) Enhance the overall value of ECP (iv) Enhance the relationship with BR.

JEDI II purchased a 100% equity stake in ECP for \$80 million on February 4, 1999 as part of the \$1.6 billion asset acquisition from Cogen Technologies. As part of the purchase consideration, Enron contributed approximately 7.6 million shares of common stock to ECP in exchange for a \$250 million subordinated note. In April, ECP successfully placed \$850 million in senior notes in the open market to refinance the acquisition debt. Simultaneously, \$62 million of subordinated notes were retired. In August, JEDI II sold a 49% equity interest to an affiliate of El Paso Power Services for \$133 million plus up to an additional \$17 million in contingent payments. ENA's current net equity interest in ECP is 25.5%

This project would be a significant component of larger planned expansion at the Linden facility, funding for which requires the re-capitalization of East Coast Power. Under the terms of the re-capitalization GECC's Limited Partner interest at the project level would be exchanged for an equity interest at the East Coast Power (Holding Company) level. Under the proposed structure GECC would infuse an additional \$166 Million into East Coast Power. East Coast Power would concurrently raise an additional \$630 Million in debt in the capital markets. The capital from these two sources would be used to pay down plant level debt at (Camden & Linden), fund the Linden Six Project, and pay any associated transaction costs.

TRANSACTION SOURCES AND USES OF FUNDS

	<u>Sources</u>		<u>Uses</u>
Enron Equity (JEDI II)	\$19,217	Capital Expenditure	\$19,217
Total	\$19,217		\$19,217

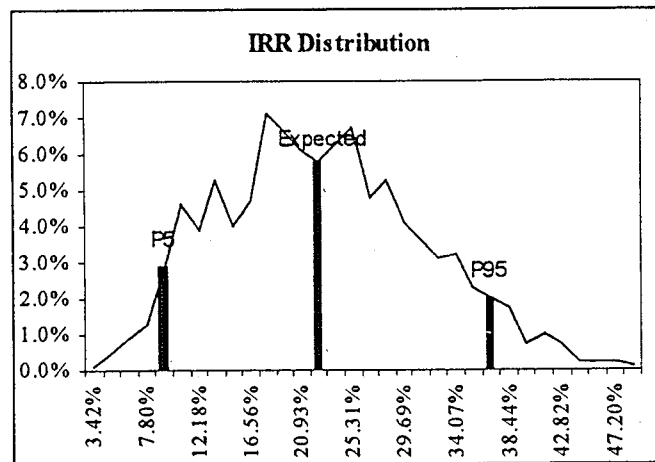
RETURN SUMMARY

<u>Return Components:</u>	<u>PV @ Capital Price</u>	<u>Cumulative IRR</u>	<u>Capital Price Components</u>	
Cash Outflows	\$62,696	-	Risk free rate (%)	6.57%
Fees	\$0	-	Equity/Credit premium (%)	1.85%
Intermed. Cash Flows	\$28,418	%	Country Premium (%)	%
Terminal Value	\$41,243	20.81%	Transaction-Specific (%)	3.58%
<b>Total NPV</b>	<b>\$6,965</b>	<b>20.81%</b>	<b>RAC CAPITAL PRICE:</b>	<b>12.00%</b>

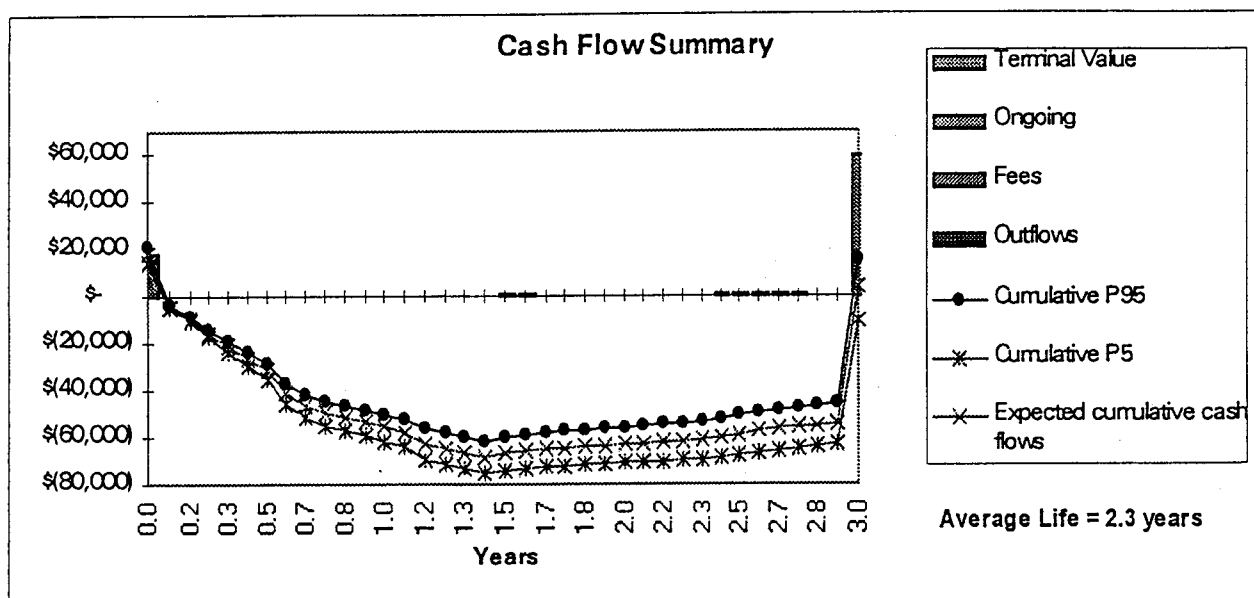
E-Rating

Relative upside ratio

0.868



EC004402099



#### TRANSACTION UPSIDES/OPTIONALITY

- The deal team estimates that the associated subsidized land lease payments have a present value of \$2.5 MM. The land may be used for three other projects to be developed in the medium term:
  1. *Linden Seven* – at a development cost of \$83.7 Million – is a 160 MW merchant facility that would have the ability to sell power into the volatile New York City market.
  2. *Thermal Energy Storage* – at a total cost of \$28.3 Million – would give the base plant up to an additional 70 MW of merchant capacity in the summer.
  3. *Gray Water* – an on-site water treatment facility, will have a total cost of \$11.6 Million.
- The structuring desk estimated extrinsic option value on the available merchant capacity of at least \$10 MM, which was not modeled in the base case.

#### EXIT STRATEGY (Merchant investments only)

The current exit strategy assumes that the East Coast Power will be liquidated in January 2003 (the model and all return numbers reflect this assumption). This project would be part of the bundled sale of the Linden facility.

EC004402100

RISK MATRIX (Maximum 5)

DESCRIPTION	MITIGATION/COMMENTS
<p><b>Off-take risk</b> Risk of default or non-payment by Tosco</p>	<p>RAC's review of Tosco suggests that the credit quality sufficiently mitigates payment performance risk associated with the expansion.</p> <p>Tosco Corporation (rated 5 on the Enron scale and BBB by S&amp;P), will provide a parent payment guarantee for the Bayway Refinery ("BR"). Under conditions of Tosco default, ECP will sell its total power supply (160 MW) on a merchant basis. Tosco has owned BR since 1993 when it was bought from Exxon. ECP has had no payment problems during the 13 months it has operated the generating facilities at Linden.</p> <p>Tosco is the largest independent refiner in the US and controls 6.5% of the US refining capacity. Tosco's strong market position, consistent operating results and interest coverage supports its investment grade credit rating. Conversely, volatile refining margins and increased debt levels offset some of the credit strength.</p>
<p><b>Construction risk</b> Risk of construction delays or cost overruns.</p>	<p>The Linden Six expansion will be constructed under an EPC with NEPCO, an Enron affiliate.</p> <p>According to the Energy Service Agreement ("ESA") between ECP and Tosco, any construction cost in excess or below the amount outlined in the construction contract will be shared jointly between ECP and Tosco.</p> <p>ECP will be penalized by \$18,000 / day for delays in excess of 15 days but less than 76 days from the project completion date (July 1, 2001). Delays in excess of 76 days will be fined with a lump sum of \$1.08 MM and 36,000 / day. Conversely, ECP will receive similar compensation for early completion.</p>
<p><b>Operating Risk</b> Risk that ECP will not meet the standards set out in the model and in the construction contract.</p>	<p>Tosco will compensate ECP through capacity payments. In turn, ECP will provide an availability guarantee of 92% for up to the full capacity of the plant. RAC review of the deterministic case suggests that a 2% move (below 92%) would reduce the IRR by 20 bp.</p> <p>Contractually, Tosco has a call on the entire load at Linden Six (160 MW). Current production at BR plus planned expansions demand about 120 MW; however, over time, the total demand at BR may increase and approach 160 MW thus reducing merchant revenues.</p> <p>The model assumes that capacity is available for merchant sale in excess of the average projected load for Tosco of 138 MW in Summer &amp; 131 MW in Winter. Currently Tosco's peak load is closer to 120 MW per annum. The 134.5 MW estimate reflects load from proposed projects.</p>
<p><b>Price risk</b> Risk of exposure to electricity and gas prices</p>	<p>A fall in the average annual demand by BR will increase the price exposure ECP is taking when dispatching into the spot market. Enron structuring desk provided the dispatch model assumptions.</p> <p>The deterministic model assumes that Tosco's annual average load is 134.5 MW. This estimate was provided by Tosco and includes demand for projects that will come on line between today and July 1, 2001. Under circumstances where Tosco's demand falls below 90MW, Tosco will compensate ECP for any losses incurred from third party sales.</p>

EC004402101

# RAC Deal Approval Sheet

<b>Terminal Value</b> Risk of mis-pricing terminal value of facility after 2017.	<p>The merchant value was determined based on input from internal sources and market-based comps with regard to valuation of the asset after the PPA expires. Three different values were obtained and used as probabilistic parameters in the RAROC model:</p> <ol style="list-style-type: none"> <li>1. Salvage value of the equipment and residual value of land lease, buildings, etc. was estimated by EE&amp;CC and ECP to be approximately \$92/kW (\$14.7 million) in nominal dollars (2000 base).</li> <li>2. Sale of three comparable projects yielded a range of \$275 - \$347/kW. Comps varied considerably from Linden Six with respect to heat rate and size.</li> </ol> <p>An expected deterministic price of \$302/kW was used in the model with a triangular distribution. All values were adjusted for inflation.</p> <p>Terminal value accounts for 10.2% of present value of the expected cash flows. The value was derived from current market estimates, and the future value of the turbines (at the end of the PPA in 2017) is highly uncertain.</p>
---	--

## KEY SUCCESS FACTORS

	NA	Poor	Excellent
Core Business			X
Strategic Fit			X
Upside Potential			X
Management	N/A		
Risk Mitigation *			X

\* This rating is in the context of the overall ECP investment. On a stand-alone basis, our risk mitigation rating would be significantly lower. DDG

EC004402102



**OTHER RAC COMMENTS:**

Terminal value accounts for 10.2% of present value of the expected cash flows. The value was derived from current market estimates, and the future value of the turbines (at the end of the PPA in 2017) is highly uncertain.

Funding of this transaction will initially be from ECP working capital, but Linden Six is contingent upon a successful re-capitalization of ECP, which is still uncertain.

EC004402103

# RAC Deal Approval Sheet

APPROVALS	Name	Signature	Date
Regional Management	Richard A. Lydecker	<i>R.A. Lydecker</i>	2/9/00
ENA Management	Cliff Baxter / Greg Whalley	<i>Greg Whalley</i>	2/9/00
ENA Structuring	Jeff Donahue	<i>Jeff Donahue</i>	2/9/00
Legal	Mark Haedicke *	<i>Mark E Haedicke</i>	2/10/00
RAC Management	Rick Buy / David Gorte	<i>David B. Gorte</i>	2/11/00
Enron Capital Management	Andy Fastow / Jeff McMahon	<i>Jeff McMahon</i>	
ENE Management	Joe Sutton / Jeffrey Skilling	<i>Jeffrey K. Skilling</i>	2/14/00

\* This contract is a complex mix of a "requirements" contract, a buy out provision for Tescow and a tolling agreement. It has both economic optionality and legal optionality as described in the attached legal risk memo. Our best people should be assigned to manage this contract.

EC004402104

**RAC Deal Approval Sheet**  
**Global Finance Summary (addendum to DASH)**

**1. Transaction Summary**

	Amount (\$000)
Total Deal/Project Capital Commitment	\$0
Less: Financings	-0-
Less: Syndications	-0-
Net Enron Investment	\$0

- 2. Investment terms and pricing:** ☐ Market ☐ Above Market ☐ Below Market

Describe (if necessary):

- 3. Financing terms and pricing:** ☐ Market ☐ Above Market ☐ Below Market

Describe (if necessary):

- 4. Legal or practical liquidity restrictions:** ☐ Unrestricted ☐ Legally Restricted ☐ Practically Restricted

Describe (if necessary):

- 5. Any recourse to Enron (other than investment):** ☐ Recourse ☐ No Recourse

Describe (if any):

- 6a. Business unit intent to syndicate:** ☐ None ☐ Partial ☐ All

Describe (if necessary):

- 6b. Intended Enron hold period:**

- 6c. Likely Syndication Market:**
- |   |  |
|---|--|
| <input type="checkbox"/> Industry/Strategic Partner | <input type="checkbox"/> Direct Private Equity |
| <input type="checkbox"/> Capital Markets            | <input type="checkbox"/> JEDI 1                |
| <input type="checkbox"/> JEDI 2                     | <input type="checkbox"/> Enserco               |
| <input type="checkbox"/> LJM 1 or 2                 | <input type="checkbox"/> Condor                |
| <input type="checkbox"/> Other: _____               | <input type="checkbox"/> Margaux               |

- 6d. Is this a JEDI 2 "Qualified Investment"?** ☐ Yes ☐ No

**Global Finance Representative:**

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name (Printed)

\_\_\_\_\_  
Date

EC004402105

## PRIVILEGED AND CONFIDENTIAL



TO: Mark Haedicke  
Julia H. Murray

DATE: February 10, 1999

CC: Cliff Baxter  
Greg Whalley  
Richard Lydecker  
Robert Licato  
Brad Alford  
Christine Lee  
Gary Keevill  
Dave Delainey  
Dave Duran  
Rick Buy  
Sheila Tweed

FROM: Bob Carter

SUBJECT: Linden Cogeneration Facility Expansion - Legal Risk Memo

#### Description of Transaction

East Coast Power L.L.C. ("ECP") and Tosco Refining L.P. ("Tosco"), a subsidiary of Tosco Corporation, will enter into an Energy Services Agreement ("ESA") under which ECP will cause to be constructed, own and operate an approximately 180 MW cogeneration facility (the "New Facility") to be located on part of the site (the "Existing Plant Site") of the existing power generation facility (the "Existing Facility") owned and operated by Cogen Technologies Linden Venture, L.P. ("Linden Venture"), an ECP majority-owned subsidiary, in Linden, New Jersey. Currently, all of the electricity generated from the Existing Facility is sold to Consolidated Edison Company of New York, Inc. under a long term power purchase agreement. Bayway Refining Company ("BRC"), an affiliate of Tosco, purchases steam from the Existing Facility under a long term steam purchase agreement (the "Steam Agreement").

Under the ESA, Tosco will agree to purchase its electricity requirements for its Bayway Refinery (the "Bayway Refinery") that are available to be supplied from the Facility, subject to the right of Tosco to purchase electricity from third parties under certain stated conditions. The New Facility will be interconnected to the pool transmission facilities of PJM (the "PJM System"). The interconnection facilities between the New Facility, the Bayway Refinery and the PJM System (the "Interconnection Facilities") will be constructed and owned by BRC on land leased by BRC to ECP.

As part of the consideration for the ESA, Tosco and ECP will cause BRC and Linden Venture to amend the Steam Agreement so as to increase the minimum required steam take by BRC when both the Existing Facility and the New Facility are operating and capable of producing steam. Previously, the Steam Agreement did not include a

\\enhou\houston\common\Legal\BCARTER\East Coast Power\Tosco\Risk Memo - Tosco ESA2.doc

EC004402106

minimum steam take requirement sufficient to maintain the Existing Facility's QF status. We previously accepted this risk because the current combined steam needs of BRC and Infineum (another purchaser of steam from the Existing Facility) far exceed the minimum steam sales needed to maintain QF status. However, BRC has a right under the ground lease for the Existing Facility to construct, or have constructed by a party other than Linden Venture, an on-site generation facility which could supply the majority of the steam requirements of BRC and Infineum, in which case the QF status of the Existing Facility would be jeopardized. The ESA and the amendment to the Steam Agreement removes this risk.

In connection with the ESA, BRC and ECP will enter into four ground leases (the "Ground Leases") providing sites for the Interconnection Facilities and the following projects contemplated by ECP: an additional generation facility ("Linden 7"), a new water purification facility that will allow both the Existing Facility and the New Facility to obtain cooling water from an alternate source (the "Greywater Project"), and a thermal energy storage facility to cool intake air, and thus improve the efficiency, of the Existing Facility, the New Facility and Linden 7 (the "TES Project").

### Legal Risks and Mitigants

The major risks associated with the transaction are as follows:

1. **Litigation Risk – Lack of Clear Measuring/Performance Standards.** Throughout the ESA, material contract provisions rely on estimates (determination of costs of back-up energy), and set performance or measurement standards based on "equitable allocation" (allocation of back-up demand charges and costs to Infineum if Infineum purchases electricity from the New Facility), "recognition of "incremental economies of scale and efficiencies" (fixed and variable O&M costs), obligations to "not unfairly disadvantage" (arrangements for back-up energy), "maximize mutual benefits" (decisions to sell excess capacity and energy in the event of lower interim nominations by Tosco) and similar phraseology. In addition, Tosco has the right to approve the construction contractor, the construction contract, change orders, the annual budget and similar matters. Lack of clear performance and measurement standards and the number of approval rights create numerous areas of potential dispute and higher litigation risks.

Comments/Mitigants. The ESA contains a disclaimer of any representations or warranties to Tosco as to actual costs, prices and potential merchant revenues and losses. Also, in disputes related to the reasonableness of costs and expenses incurred by ECP, the ESA has shifted burden of proof to Tosco regardless of whether litigation or arbitration is instituted by ECP or Tosco.

2. **GE/Lender Consent.** The Linden Venture partnership agreement and the project loan documents for the Existing Plant prohibit Linden Venture from entering into the ESA, the amendment to the Steam Agreement or the Ground Leases without GE and lender consent. Based on past experience with this lender group, it was and is the belief of the ECP/Enron working group that the size and complexity of the ESA transaction would preclude obtaining lender consent within the time required to meet Tosco's requirements for the in-service date of the New Facility and without onerous conditions. As an alternative, ECP is working with GE on a proposal to recapitalize ECP (the "Recapitalization"), part of which would involve taking out the Linden Venture project lenders. In order to stay on schedule for the in-service date and to get to closure on the negotiations with Tosco, ECP will sign the ESA and the Ground Leases (ECP is not subject to any lender or other consent requirements), such agreements to be assigned to Linden Venture upon completion of the Recapitalization. In the interim, ECP will incur approximately \$2.5 Million in costs to its EPC contractor for preliminary work for the New Facility. If ECP does not obtain the necessary commitments or assurances from GE that the Recapitalization will occur, ECP would have to abandon the project or risk delays in achieving the in-service date as a result of the time necessary to obtain project lender consent, which would result in substantial liquidated damages under the ESA.

Comments/Mitigants. ECP has the option, without cause and in its sole discretion, to terminate the ESA within sixty-five days of its execution. If ECP terminates the ESA within this sixty-five day period, Tosco will reimburse ECP for the (a) entire \$2.5 Million in EPC contractor costs, or (b) \$1.25 Million of the EPC contractor costs and an estimated \$1.5 Million in additional steam sales (pursuant to a Reimbursement Agreement), depending on whether BRC obtains lien releases from its mortgage relating to the sites for the Ground Leases.

3. Mortgage Encumbering Ground Lease Sites. BRC has encumbered the sites to be covered by the Ground Leases with a \$150 Million mortgage. The Ground Lease for the Interconnection Facilities is essential to the New Facility. If the liens are not released, the Ground Leases are subordinate to the mortgage and can be terminated by foreclosure of the mortgage.

Comments/Mitigants. If BRC fails to deliver releases from the mortgage within fifty-five days of execution of the ESA, ECP may terminate the ESA and Tosco will be obligated to reimburse ECP for all of the \$2.5 Million in EPC contractor costs that ECP will incur. ECP will have no liability for rents under the Ground Leases unless the lien releases are delivered.

4. Reduction of Tosco's Obligation to Purchase Its Electricity Requirements From ECP/Shut Down of Bayway Refinery. Under the ESA, subject to certain conditions Tosco may take its electricity requirements from sources other than the New Facility and may shut down the Bayway Refinery. In each instance, Tosco must continue to pay all fixed charges and ECP has the right to make merchant sales in such events. However, if demand for merchant power is insufficient to operate the New Facility at a level of output that is economically feasible or not permitted by ECP's emissions permit (which currently would not allow the New Facility to operate at an output less than 90MW), Tosco has no obligation to compensate ECP for lost revenues from merchants sales.

Comments/Mitigants. In any of those events, Tosco must continue to pay the full amount of all fixed charges (after the commercial operations date, fixed charges are payable in all events, including a force majeure in which ECP is the affected party), except in the event of ECP's default under the ESA. Tosco will be obligated to share a portion of the savings in the case of item (b) above and pay to ECP all costs incurred by ECP if ECP is required to shut down the New Facility. Further, for the duration of the stranded cost recovery period in New Jersey, electricity from purchasers from third party marketers or new generation constructed on the Bayway Refinery would bear stranded cost charges, while the new Facility will grandfathered, thus shielding Tosco from stranded cost charges on electricity purchases from the New Facility.

5. Construction Cost Overruns. Payments for ECP's cost of construction are determined by a "Fixed Facility Charge Component," based on a pro forma analysis of such costs that is an exhibit to the ESA, recoverable in monthly payments over the life of the ESA. Subject to certain limited number of exceptions, ECP bears one-half of the risk of construction cost overruns.

Comments/Mitigants. There are no contractual mitigants to the risk of not recovering all cost overruns. However, ECP retains one-half of the benefit of completing the New Facility below budget, in which case the Fixed Facility Charge Component is reduced by only one-half of the cost savings. The risk of most construction cost overruns can be passed to the EPC contractor. There are no contractual mitigants for cost overruns not due to EPC contractor performance and not borne by Tosco.

6. Penalties for Delay in In-Service Date. If the actual in-service date is between 15 and 76 days after the scheduled in-service date, penalties are \$18,000 per day. If the actual in-service date is more than 76 days after the scheduled in-service date, penalties are \$1,080,000 plus \$36,000 per day. At any time, ECP may cut off further accumulation of delay payments by terminating the ESA and paying \$13,140,000 in addition to the delay penalties accrued as of the date of termination.

Comments/Mitigants. ECP receives comparable incentive payments if the actual in-service date occurs earlier than the scheduled in-service date. However, there are no ESA contractual mitigants to the exposure to delay penalties. Any delay caused by the EPC contractor can be passed to the EPC contractor.

7. Back-Up Energy Costs/Availability. ECP bears the cost of all back-up energy costs if the New Facility is less than 92% available. In addition, ECP bears the cost of back-up energy during any force majeure period for which the cause is an event that occurs within the site of the Existing Facility and/or the New Facility that is an insurable loss.

Comments/Mitigants. Availability is determined on rolling average, the measuring period starting at 12 months and increasing to a six-year rolling average. This mitigates the effect of relatively short-term outages. Tosco bears all reservation charges for back-up energy and all back-up energy charges if the New Facility is 92-100% available during the applicable measuring period. Tosco also bears all back-up energy cost in certain enumerated events, such as a failure of Tosco to perform certain duties, interim increases in Tosco's load, and periods in which the New Facility is "deemed available" as a result of shutdown of the New Facility due to Tosco's election to purchase from third parties.

8. Tosco Fuel Purchases. ECP may not enter into any agreement to purchase fuel for a term greater than 6 months. Tosco has the right on 30 days' notice to take over the purchase of all fuel for the Facility.

Comments/Mitigants. Tosco must purchase the fuel for its own account and risk, may not require ECP to break any then-existing fuel supply agreements entered into by ECP, must indemnify ECP for any costs or losses as a result of Tosco's vendors' failure to deliver fuel, and generally bears the risk of higher fuel costs if it does not properly manage fuel purchases since fuel cost is a pass-through. However, there is no contractual mitigant for the potential loss of merchant revenues to ECP if Tosco mismanages fuel purchases.

9. Regulatory. The ESA requires ECP to maintain the New Facility as a QF, so long as Tosco purchases enough steam for that purpose (aside from PUHCA-related issues, general QF status entitles Tosco to preferential rights to, and rates for, back-up energy). If QF status is no longer necessary from ECP's and Enron's standpoint due to changes in federal and state regulation, the ESA would require ECP to maintain QF status solely for Tosco's benefit under the ESA.

Comments/Mitigants. ECP is no longer required to maintain QF status when (a) it is no longer necessary for ECP to perform its obligations under the ESA and (b) loss of QF status has no material affect on Tosco that can not be compensated by the payment of money (the additional cost of back-up energy). If restructuring of the Con Ed contract for the Existing Facility results in a need to no longer maintain the Existing Facility as a QF, ECP will be able to maintain the QF status of the New Facility stand-alone, so the ability to do the restructuring of Con Ed contract for the Existing Facility should be unaffected by the requirement to keep QF status for the New Facility.

10. Interconnection Facilities. ECP will lease the site for the Interconnection Facilities but Tosco will have sole responsibility for construction, operation and maintenance of the Interconnection Facilities.

Comments/Mitigants. If Tosco fails to properly construct the Interconnection Facilities, the in-service date will be delayed but ECP may demonstrate that the New Facility is capable of commercial operation, in which case Tosco must commence payment of fixed charges although the in-service date has not occurred. If Tosco fails to properly maintain the interconnection facilities, ECP may take over the operation and maintenance of the interconnection facilities. However, there is no contractual mitigant or compensation to ECP for the loss of merchant revenues if Tosco fails to properly construct, operate or maintain the Interconnection Facilities.

11. Assignability. In the event of any assignment of the ESA, by ECP or Linden Venture, ECP would

remain liable for ESA obligations unless there is a guarantor of the assignee's obligations having a net worth of \$2 Billion, although ECP's current net worth is approximately \$76 Million. Assignment of any of the Ground Leases is not permitted unless a guarantor having a net worth of \$250 Million. This may restrict ECP's ability to sell the Linden assets or interests in the Linden assets.

Comments/Mitigants. ECP should be able to cause such an asset transfer to occur by stripping out other assets and causing a sale of Linden Venture or ECP.

12. Environmental. Each of the sites covered by the Ground Leases is subject to an Administrative Consent Order ("ACO") between Exxon, Tosco's predecessor in title, and the New Jersey Department of Environmental Protection ("NJDEP"), calling for remediation of environmental remediation of the property by Exxon. Exxon tightly controls any right to conduct environmental audits of the property and ECP has been unable to conduct environmental audits. BRC indemnifies ECP for all costs and liabilities for pre-existing environmental conditions, except for up to \$500,000 per site that may be incurred as additional cost for removal and/or treatment of contaminated soil in the construction process, although ECP can ultimately recover such costs by adjustment to the fixed charges under the ESA. However, ECP is responsible to indemnify BRC for any contamination of the sites by ECP after closing. The lack of an environmental audit by ECP does not allow ECP to establish a "baseline" measurement of contamination existing at the time of closing and creates difficulty of proof as to whether any contamination was pre-existing or caused by ECP.

Comments/Mitigants. Exxon is required to periodically test the property and provide results to BRC, so a "baseline" may be established at a time fairly close to the closing date. Constructing the new projects on concrete pads, careful manifesting of disposal of hazardous materials and other customary environmental compliance measures will also mitigate this risk.



# Global Finance Summary (addendum to DASH)

## 1. Transaction Summary

Linden 6 will be a 160MW gas-fired expansion of the existing Linden facilities owned by ECP. Energy will be sold to TOSCO under a 17 yr. ESA.

Initial funding of the transaction will be from ECP's working capital facility. Permanent financing is contingent on a re-capitalization agreement between ECP and General Electric Capital Corp. ("GECC"). Once the agreement with TOSCO is signed for Linden 6, ECP has 65 days to reach agreement with GECC or back out of the transaction. During this 65 day period, \$2.1MM in progress payments associated with the HRSG and transformers for Linden 6 will be made by ECP. If ECP does not reach a tentative agreement with GECC on a recapitalization, ECP can terminate the Linden 6 transaction and TOSCO will reimburse ECP for the \$2.1MM in expenditures through a \$1.1MM payment at termination and through increased steam sale purchases for the remaining amount.

	65 Day Period	Permanent Financing
Total Deal/Project Capital Commitment	94,200	94,200
Less: Financings	0	56,520*
Less: Syndications	94,200	37,680
Net Enron Investment	0	0

(\* Linden 6 can support financing of approx. 60% based on DSC ratios at ECP. With the recapitalization, GECC will contribute equity and additional debt at ECP will be raised, restructuring debt at the project company levels, so there will be no debt explicitly tied to Linden 6. Restructuring at ECP is expected to occur in the 2<sup>nd</sup> quarter.)

2. Investment terms and pricing:  
Describe (if necessary):

☒ Market

☐ Above Market

☐ Below Market

3. Financing terms and pricing:  
Describe (if necessary):

☒ Market

☐ Above Market

☐ Below Market

4. Legal or practical liquidity restrictions:  
Describe (if necessary):

☒ Unrestricted

☐ Legally Restricted

☐ Practically Restricted

5. Any recourse to Enron (other than investment):  
Describe (if any):

☐ Recourse

☒ No Recourse

- 6a. Business unit intent to syndicate:

☐ None

☐ Partial

☒ All

Describe (if necessary): JEDI II owns 51% of ECP; El Paso owns the remaining 49%.

- 6b. Intended Enron hold period:

- 6c. Likely Syndication Market:

☐ Industry/Strategic Partner

☐ Direct Private Equity

☐ Capital Markets

☐ JEDI 1

☒ JEDI 2 (51% - \$48.04MM)

☐ Enserco

☐ LJM 1 or 2

☐ Condor

☒ Other: El Paso

☐ Margaux

(49% - \$46.16MM)

- 6d. Is this a JEDI 2 "Qualified Investment"?

☒ Yes

☐ No

Global Finance Representative:

Brian Kerrigan  
Signature

Brian Kerrigan  
Name (Printed)

2/9/2000  
Date

EC004402111

# ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

**DEAL NAME:** N/A  
**Counterparty:** Mariner Energy LLC.  
**Business Unit:** CTG  
**Business Unit Originator:** Brad Dunn  
☐ Public      ☒ Private  
☒ Merchant      ☐ Strategic  
☒ Conforming      ☐ Nonconforming

**Date DASH Completed:** 03/17/2000  
**RAC Analyst:** William McKone  
**Investment Type:** Debt  
**Capital Funding Source(s):** Balance Sheet  
**Expected Closing Date:** 03/20/00  
**Expected Funding Date:** 03/21/00  
**Board Approval:** ☐ Pending ☐ Received ☐ Denied ☒ N/A

**RAC Recommendation:** ☒ Proceed with Transaction ☐ Returns below Capital Price ☐ Do not Proceed

## APPROVAL AMOUNT REQUESTED

Incremental Funding - \$31 MM, Extension of Current Loans - \$80 MM

## EXPOSURE SUMMARY

Existing Exposure:	\$198 MM
This transaction:	\$31 MM
<b>Total</b>	<b>\$229 MM</b>

## DEAL DESCRIPTION

ENA proposes to purchase \$111 MM of Sr. Unsecured Notes ("Notes") from Mariner Energy LLC. The Notes will have a term of three years and an interest rate of 15%. In addition ENA will receive 600,000 5-year, detachable warrants that strike at \$.01 per share. ENA will receive another 300,000 warrants under the same terms and conditions if the Notes are not repaid after one year. The notes must be repaid with the proceeds of any new equity issued by Mariner. Mariner will not be permitted to incur additional indebtedness, must maintain an EBITDAX to interest expense ratio of 1.65x, and an EBITDAX to fixed charge ratio of 1.25x. ECT Securities LP will earn a 1% structuring fee.

The proceeds will be used to repay the existing ENA credit facilities and fund a portion of the approved 2000 capital budget. ENA currently has a \$50 MM convertible credit facility with Mariner Energy LLC. This facility has a maturity of 4/30/00, a coupon of LIBOR+450, accrued interest of approximately \$4.7MM, and a convert price of \$175 per share. ENA also has a \$25 MM revolving credit facility with Mariner Energy Inc. This facility matures on 4/30/00 and bears interest at LIBOR+250. Iguana currently owns a participation right in both of these facilities. Approximately \$30 MM will be re-invested under the 2000 capital budget.

The 2000 capital budget is \$70 MM before asset dispositions. It consists of \$40MM for development projects, \$20MM for appraisal drilling and \$10 MM for exploration. The deal team feels that these projects have excellent risk/reward characteristics and if successful, should increase Mariner's equity value by more than \$50 MM.

## TRANSACTION SOURCES AND USES OF FUNDS

		<u>Sources</u>	<u>Uses</u>
Enron Balance Sheet	\$31 MM	Mariner LLC Sr. Unsecured Notes	\$110 MM
MEI Senior Credit Facility	\$25 MM		
MEI Credit Facility	\$54 MM		
<b>Total Sources</b>	<b>\$110 MM</b>	<b>Total Uses</b>	<b>\$110 MM</b>

## RETURN SUMMARY

	<u>PV @</u> <u>Capital Price</u>	<u>Cumulative</u> <u>IRR</u>	<u>Capital Price Components</u>	
<b>Return Components:</b>				
Cash Outflows	N/A	N/A	Risk free rate (%)	6.66%
Fees	N/A	N/A	Equity/Credit premium (%)	11.88%
Intermed. Cash Flows	N/A	N/A	Country Premium (%)	
Terminal Value	N/A	N/A	Transaction-Specific (%)	
<b>Total NPV</b>	<b>N/A</b>	<b>N/A</b>	<b>RAC CAPITAL PRICE:</b>	<b>18.54%</b>

Relative upside ratio      N/A

EC004402112

## RETURN SUMMARY (cont.)

Instrument	Amount	Maturity	Coupon	Strike	PV (\$9.6MM)	IRR**
Unsecured Notes	\$110MM	3/17/2003	15%	N/A		N/A
Warrants*	900,000	3/17/2005	N/A	\$0.01	\$10MM	18.5%

\*The valuation for this instrument only considers deterministic returns and assumes that Mariner will not repay the unsecured notes after 1 year. In addition, the model assumes that the warrants are exercised in 3 years.

\*\*The IRR of 18.5% is generated from the combined cash flows of the unsecured notes and the warrants.

## Comparable Debt Instruments

Company	Moody's Rating	S&P Rating	Coupon	Maturity	Price	Yield
Lomak Petroleum	Caa1	B	8.75%	1/15/2007	87.00	11.55%
Drypers Corp.	Caa1	B-	10.25%	6/15/2007	78.00	15.39%
Airtran Airlines	B3	B-	10.50%	4/15/2001	97.25	13.30%
Four M Corp.	Caa1	CCC	12.00%	6/1/2006	98.50	12.34%
Trans World Airlines	Caa1	CCC	11.50%	12/15/2004	63.00	25.30%
Abraxas Petroleum	Caa2	CC	11.50%	11/1/2004	68.25	23.01%

## RISK MATRIX

DESCRIPTION	MITIGATION/COMMENTS
<i>Exploration Risk</i> – Mariner will drill 3-5 exploration tests in 2000	These are all technically sound. Most have HCI, structure, and nearby analogy. Only 20% of the budget is allocated to exploration
<i>Concentration Risk</i> – Three well bores (Pluto, Dulcimer, and Apia) produce 60% of 2000 expected production. If one of these wells goes down it could material impact the companies ability to fund the capital program	Mariner is working to mitigate this risk with insurance and through a production swap.
<i>Development Risk</i> – The company plans to spend 52% of the capital budget (\$37MM) developing two subsea tiebacks	This is Mariner's area of expertise. They have successfully completed six subsea tiebacks to date.
<i>Solvency/Working Capital Needs Risk</i> – Mariner may require additional funding for capex and working capital needs over the medium term, especially if the company's operating performance does not meet forecasted goals.	The deal team is working with investment banks in order to find a suitable company that would be willing to purchase all/a portion of Mariner's equity. The proceeds from this transaction would be applied towards paying down debt and funding working capital needs. However, the likelihood and timing of finding a willing partner is uncertain.

## KEY SUCCESS FACTORS

	NA	Poor	Excellent
Core Business			x
Strategic Fit			x
Upside Potential			x
Management			x
Risk Mitigation		x	

**OTHER RAC COMMENTS:** Without the requested funding, Mariner will be forced to significantly lower its 2000 capital budget for exploration, project development and drilling. In addition, the company would most likely experience severe liquidity problems due to working capital shortages. RAC recommends proceeding with the funding to ensure Mariner's viability.

RAC Deal Approval Sheet  
**Global Finance Summary**

Deal Name: Mariner Energy LLC.

1. Transaction Summary

Total Deal/Project Capital Commitment  
Less: Financing  
Less: Syndication's  
Net Enron Investment

Amount (\$000)	
\$ 31,000,000	<del>\$</del>
-0-	-0-
<u>\$ 31,000,000</u>	<u><del>\$</del></u>

2. Investment terms and pricing:

☒ Market

☐ Above Market ☐ Below Market

Describe (if necessary):

3. Financing terms and pricing:

☒ Market

☐ Above Market ☐ Below Market

Describe (if necessary):

4. Legal or practical liquidity restrictions:  
Restricted

☐ Unrestricted ☐ Legally Restricted

☒ Practically

Describe (if necessary):

5. Any recourse to Enron (other than investment):

☐ Recourse

☒ No Recourse

Describe (if any):

6a. Business unit intent to syndicate:

☒ None

☐ Partial

☐ All

Describe (if necessary):

6b. Intended Enron hold period:

6c. Likely Syndication Market:

☐ Industry/Strategic Partner

☐ Direct Private Equity

☐ Capital Markets

☐ JEDI 1

☐ JEDI 2

☐ Enserco

☐ LJM 1 or 2

☐ Condor

☐ Other: \_\_\_\_\_

☐ Margaux

6d. Is this a JEDI 2 "Qualified Investment"?

☐ Yes

☒ No


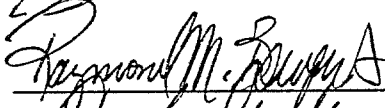
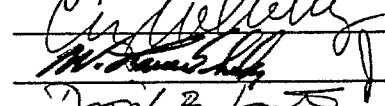
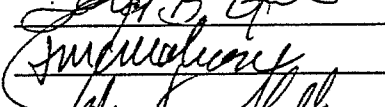
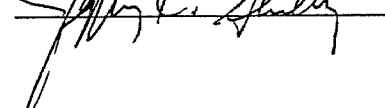


Global Finance Representative:

Brian Kerrigan  
Signature

Brian Kerrigan  
Name (Printed)

3/17/00  
Date

## APPROVALS

	Name	Signature	Date
ENA Originator	<u>Brad Dunn</u>		<u>3/17/00</u>
ENA Commercial Transactions Group	<u>Ray Bowen</u>		<u>5/17/00</u>
ENA Regional Mgmt.	<u>Cliff Baxter or Greg Whalley</u>		<u>3/20/00</u>
Legal	<u>Mark Haedicke</u>		<u>3/20/00</u>
RAC Management	<u>Rick Buy or David Gorte</u>		<u>3/17/00</u>
ENE Capital Management	<u>Andy Fastow/Jeff McMahon</u>		<u>3/17/00</u>
ENE Management	<u>Jeffrey Skilling or Joe Sutton</u>		<u>3/17/00</u>

**M-6**

EC004402116

# ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

<b>DEAL NAME:</b> Mission Coal Financing <b>Counterparty:</b> Edison First Power Ltd. <b>Business Unit:</b> Coal Trading <b>Business Unit Originator:</b> Riaz Rizvi, Stuart Staley <input type="checkbox"/> Public <input checked="" type="checkbox"/> Private <input checked="" type="checkbox"/> Merchant <input type="checkbox"/> Strategic <input checked="" type="checkbox"/> Conforming <input type="checkbox"/> Nonconforming	<b>Date DASH Completed:</b> 20 <sup>th</sup> December 1999 <b>RAC Analyst:</b> Esther Gerratt/David Hardy <b>Investment Type:</b> Coal Purchase/Financing <b>Capital Funding Source(s):</b> Enron Balance Sheet <b>Expected Closing Date:</b> 16 <sup>th</sup> December 1999 <b>Expected Funding Date:</b> 17 <sup>th</sup> December 1999 <b>Board Approval:</b> <input type="checkbox"/> Pending <input type="checkbox"/> Received <input type="checkbox"/> Denied <input checked="" type="checkbox"/> N/A
<b>RAC Recommendation:</b> <input type="checkbox"/> Proceed with Transaction <input checked="" type="checkbox"/> Returns below Capital Price <input type="checkbox"/> Do not Proceed	

## APPROVAL REQUESTED

Capital Commitment: GBP 15,000,000 (USD 24,300,000) for the purchase of 480,000 tons of coal which have an estimated resale value of GBP 11,345,000 (USD 18,380,000).

## EXPOSURE SUMMARY

### 1) This Transaction

**Commodity Exposure:** Long coal December 1999 480,000 metric tons, reducing evenly over a 12 month period, starting January 2000.

VAR:	0	See Other RAC Comments
Credit Reserve:	0	1-year deal
Prepay Component (GBP m):	<u>3.65</u>	Corresponding to the difference between purchase price and resale value
Total (GBP m)	3.65	(USD 5.9m)

### 2) Existing Exposure

Under an existing coal supply deal with Mission, there is a monthly delivered unpaid exposure which peaks at GBP 11,000,000 (USD 17,820,000) decreasing to GBP 8,000,000 (USD 13,000,000) towards contract end at May 2000.

## DEAL DESCRIPTION

Enron will purchase 480,000 metric tons of coal from Edison Mission at GBP 30.988 (USD 50.2) per metric ton. The total initial outlay will be GBP 15,000,000. Over the following 12 months Edison Mission will buy back the coal (40,000 metric tons per month irrespective of actual plant consumption) at GBP 32.40 (USD 52.5) per metric ton. This price is intended to partly cover Enron's cost of capital and a credit spread tied to senior secured debt of a BBB-rated (E-rating 4) entity. There will be no physical movement of the coal. The coal will remain on Edison First Power Ltd's property but Enron will have title and risk over it.

In case the coal had to be resold to a third party, the coal desk estimates that its price would be GBP 23.6 (USD 38.3) per metric ton (net of transportation costs).

### **Background:**

In July 1999 Edison Mission Energy bought PowerGen's Fiddler's Ferry and Ferrybridge coal-fired power plants for GBP 1.25 billion. It was reported that Edison Mission funded 32% of the acquisition by equity, and the remaining 68% was funded by dual tranche limited recourse debt financing of GBP 850 million, term 13 years (one tranche of GBP 830 million and the other of GBP 20 million revolving debt). Edison First Power Ltd issued a GBP 1.15 billion bond in August 1999 (lead manager was Merrill Lynch) which is listed on the Luxembourg Stock Exchange and has been privately rated by Duff and Phelps as BBB. Edison Mission Energy is Edison First Power Ltd.'s parent company – however, Edison First Power is a non-recourse vehicle and does not appear on Edison Mission's balance sheet.

## TRANSACTION SOURCES AND USES OF FUNDS

	<u>Sources</u>		<u>Uses</u>
Enron Balance Sheet	GBP 15,000,000	To purchase commodity	GBP 15,000,000

EC004402117

## RETURN SUMMARY

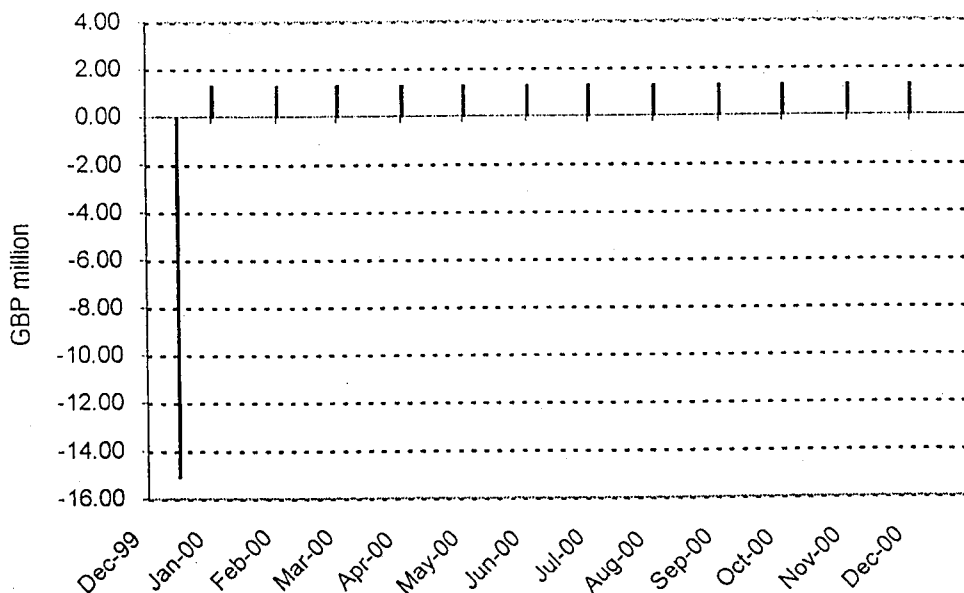
<u>Return Components:</u>	<u>PV @ Capital Price (GBP)</u>	<u>Cumulative IRR</u>	<u>Capital Price Components</u>	
Cash Outflows	15,000,000	-	6 month GBP LIBOR	6.25%
Fees		-	Enron Credit Spread	0.80%
Intermed. Cash Flows		-	Mission Credit premium	1.20%
Terminal Value		-	Syndication Fees	1.50%
<b>Total NPV</b>	<b>(83,580)</b>	<b>8.60%</b>	<b>RAC CAPITAL PRICE:</b>	<b>9.75% (*)</b>

(\*) The RAC Capital Price represents an estimate of the price necessary to syndicate the transaction to a third party (i.e. market clearing price - excluding legal costs) and is supported by input from EGF. The coal desk is expected to be charged an additional 260bp for the deal (GBP 184,420) which represents the difference between Enron's WACC (9.63%) and LIBOR + Enron Spread. This will bring the cost to the team to 12.35% and the deal's NPV to GBP (268,000).

## TRANSACTION UPSIDES/OPTIONALITY

The deal is subject to the closing of a separate 12-month coal import contract with Mission starting in June 2000 which is an extension to the existing 9-month coal supply contract described under "Existing Exposure" above. This extension deal involves supplying 4,200,000 metric tons of coal with an optional further 1,000,000 mt and has a net present value of USD 8 million.

## CASH FLOW SUMMARY



EC004402118



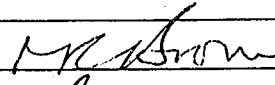
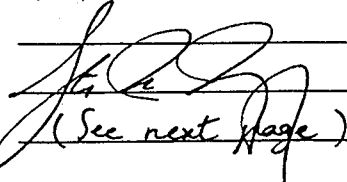
## RISK MATRIX (Main 5 Risks Only)

DESCRIPTION	MITIGATION/COMMENTS
Credit Risk of Counterparty	Edison First Power Ltd. is a non-recourse vehicle and there is therefore no parental guarantee from Edison Mission. However, its GBP 1.15 billion senior secured debt (listed on the Luxembourg Stock Exchange) has been privately rated by Duff and Phelps as BBB. This rating was the basis for the calculation of the credit spread.
Commodity Risk	In the event of insolvency Enron retains title and risk over the coal and always has access to it. The risk of the coal being disposed of in some way other than by Enron is covered by Enron's global products insurance (covering in particular theft, fire, etc). An independent inspection will confirm the physical existence of the coal to which Enron has title and risk. Enron's coal will be made distinguishable from other coal stock at the site with flagpoles. Regular inspection rights will be a contractual obligation. Contractual terms will state that storage is free. In case the coal had to be resold to a third party, the coal desk estimates that its price would be GBP 23.6 per metric ton (net of transportation costs).
Station Shutdown	It is considered very unlikely that the power station will shutdown in light of the recent bank financing of GBP 1.15 billion (6 months into a 13-year loan). If the station were to shutdown Enron would wear the risk of the transportation costs of moving the coal to another site.

## OTHER RAC COMMENTS:

There is no market risk in this deal unless the counterparty defaults in which case the originating desk estimates that the coal could be transported to another site and sold there for a net value of GBP 23.6 per ton (a loss of approximately 24%).

## APPROVALS

	Name	Signature	Date
Business Originator	Stuart Staley		
Regional Mgmt.	Mark Frevert		
Regional Mgmt.	John Sherriff		
Legal	Michael Brown		24/12/99
RAC Management	Rick Buy		
RAC Management	Steve Young		23/12/99
Enron Global Finance	Paul Chivers	(See next page)	
Enron Global Finance	Jeff McMahon		
ENE Management	Jeffrey Skilling		

EC004402119

## RISK MATRIX (Major Risks Only)

DESCRIPTION	MITIGATION/COMMENTS
Credit Risk of Counterparty	Edison First Power Ltd. is a non-recourse vehicle and there is therefore no parental guarantee from Edison Mission. However, its GBP 1.15 billion senior secured debt (listed on the Luxembourg Stock Exchange) has been privately rated by Duff and Phelps as BBB. This rating was the basis for the calculation of the credit spread.
Commodity Risk	In the event of insolvency Enron retains title and risk over the coal and always has access to it. The risk of the coal being disposed of in some way other than by Enron is covered by Enron's global products insurance (covering in particular theft, fire, etc). An independent inspection will confirm the physical existence of the coal to which Enron has title and risk. Enron's coal will be made distinguishable from other coal stock at the site with flagpoles. Regular inspection rights will be a contractual obligation. Contractual terms will state that storage is free. In case the coal had to be resold to a third party, the coal desk estimates that its price would be GBP 23.6 per metric ton (net of transportation costs).
Station Shutdown	It is considered very unlikely that the power station will shutdown in light of the recent bank financing of GBP 1.15 billion (6 months into a 13-year loan). If the station were to shutdown Enron would bear the risk of the transportation costs of moving the coal to another site.

## OTHER RAC COMMENTS:

There is no market risk in this deal unless the counterparty defaults in which case the originating desk estimates that the coal could be transported to another site and sold there for a net value of GBP 23.6 per ton (a loss of approximately 24%).

APPROVALS	Name	Signature	Date
Business Originator	Stuart Staley		
Regional Mgmt.	Mark Frevert		
Regional Mgmt.	John Sherriff		
Legal	Michael Brown		
RAC Management	Rick Buy		12/27/99
RAC Management	Steve Young		23/12/99
Enron Global Finance	Paul Chivers		
Enron Global Finance	Jeff McMillan A. Fastow		12/27/99
ENE Management	Jeffrey Skilling		

J. Satten

CH

George W. Satten

12/22/99

Global Finance Summary (addendum to DASH)

## 1. Transaction Summary

Total Deal/Project Capital Commitment  
 Less: Financings  
 Less: Syndications  
 Net Enron Investment

Amount  
 GBP 15,000,000

GBP 15,000,000

2. Investment terms and pricing: ☒ Market ☐ Above Market ☐ Below Market

Describe (if necessary): *Transaction priced to monetise in normal market.*

3. Financing terms and pricing: ☒ Market ☐ Above Market ☐ Below Market

Describe (if necessary): *Anticipated monetisation*

4. Legal or practical liquidity restrictions: ☒ Unrestricted ☐ Legally Restricted ☐ Practically Restricted

Describe (if necessary):

5. Any recourse to Enron (other than investment):

☐ Recourse

☒ No Recourse

Describe (if any): *NONE*

- 6a. Business unit intent to syndicate:

☐ None

☐ Partial

☒ All

Describe (if necessary):

- 6b. Intended Enron hold period:

*ONE MONTH*

- 6c. Likely Syndication Market:

☐ Industry/Strategic Partner

☐ Direct Private Equity

☒ Capital Markets

☐ JEDI 1

☒ JEDI 2

☐ Enserco

☐ LJM 1 or 2

☐ Condor

☐ Other: \_\_\_\_\_

☐ Margaux

- 6d. Is this a JEDI 2 "Qualified Investment"?

☒ Yes

☐ No

Global Finance Representative:

*PC Chivers*

Signature

*PAUL CHIVERS*

Name (Printed)

*23/12/99*

Date

**M-7**

EC004402122

# ENRON DASH ADDENDUM

**DEAL NAME: Motown**  
 Counterparty: MCN Energy Group, Inc.  
 Business Unit: Enron North America  
 Business Unit Originator: Doug Clifford  
☐ Public ☒ Private  
☒ Merchant ☐ Strategic  
☒ Conforming ☐ Nonconforming

Date DASH Completed: 02/11/00  
 RAC Analyst: M. Bonney, E. Pedersen  
 Investment Type: Equity  
 Capital Funding Source(s): Balance Sheet/Jedi II/Other  
 Expected Closing Date: March 2000  
 Expected Funding Date: April 2000  
 Board Approval: ☐ Pending ☐ Received ☐ Denied ☒ N/A

RAC Recommendation: ☒ Proceed with Transaction ☐ Returns below Capital Price ☐ Do not Proceed

## REASON FOR ADDENDUM

Subsequent to the internal approval of the Motown Project (attached DASH dated 01/31/00), the Region reformulated its bidding strategy to exclude the Carson assets from the bid to MCN. Based on this information and additional changes made to the model to better reflect the reality of the transaction, the new economics are outlined below.

## APPROVAL AMOUNT REQUESTED

Enron North America ("ENA") seeks approval to bid on the sale of MCN Energy Group, Inc.'s ("MCN") ownership in two co-generation facilities in Michigan.

Capital Commitment \$57,500

## EXPOSURE SUMMARY

This transaction: \$57,500  
 Total \$57,500

## TRANSACTION SOURCES AND USES OF FUNDS

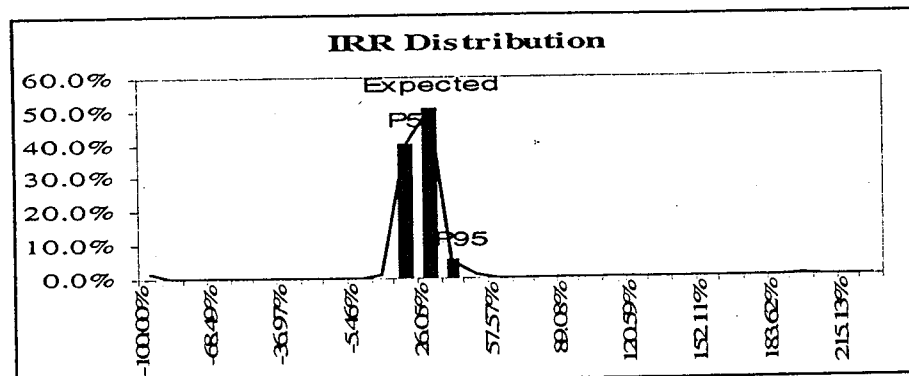
	<u>Sources</u>		<u>Uses</u>
Enron Equity	\$57,500	Capital Expenditure	\$57,500
Total	\$57,500		\$57,500

## RETURN SUMMARY

	<u>PV @ Capital Price</u>	<u>Cumulative IRR</u>	<u>Capital Price Components</u>	
<u>Return Components:</u>				
Cash Outflows	(\$21,600)	-	Risk free rate (%)	6.51%
Fees	\$0	-	Equity/Credit premium (%)	1.76%
Intermed. Cash Flows	\$30,897	-3.40%	Country Premium (%)	0.00%
Terminal Value	\$0	16.15%	Transaction-Specific (%)	2.73%
<b>Total NPV</b>	<b>\$9,297</b>	<b>16.52%</b>	<b>RAC CAPITAL PRICE:</b>	<b>11.00%</b>

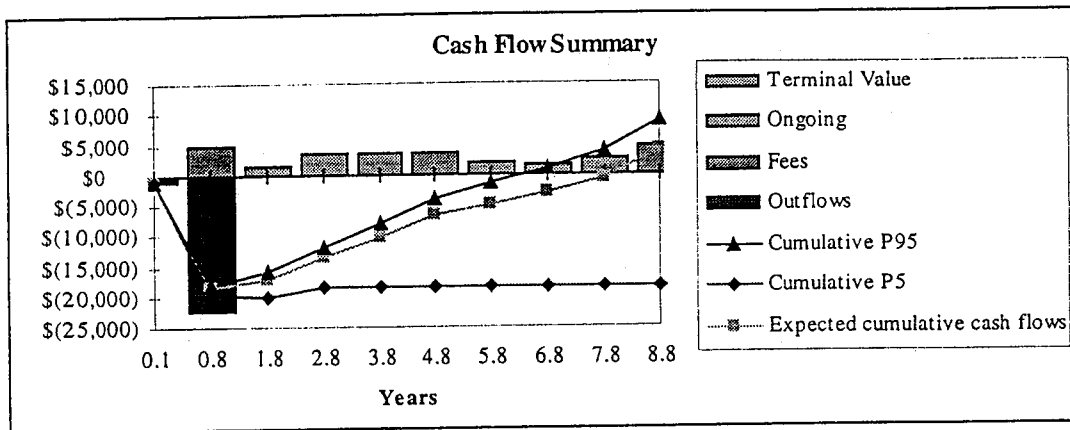
E-Rating

Relative upside ratio 0.724





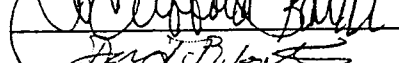
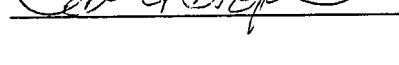
EC004402123

RAC Deal Approval Sheet  
CASH FLOW SUMMARY



EC004402124

# RAC Deal Approval Sheet

APPROVALS	Name	Signature	Date
Originator	<u>Doug Clifford / Dave Duran</u>	<u></u>	<u>27 March 00</u>
Regional Management	<u>Jeff Donahue</u>	<u></u>	<u>3/29/00</u>
ENA Management	<u>Cliff Baxter</u>	<u></u>	<u>3/29/00</u>
RAC Management	<u>Rick Buy / Dave Gorte</u> <b>KRP</b>	<u></u>	<u>29 March 2000</u>

EC004402125

# ENRON RISK ASSESSMENT AND CONTROL

## DEAL APPROVAL SHEET

**DEAL NAME:** Motown  
Counterparty: MCN Energy Group, Inc.  
Business Unit: Enron North America  
Business Unit Originator: Doug Clifford  
☐ Public ☒ Private  
☒ Merchant ☐ Strategic  
☒ Conforming ☐ Nonconforming

Date DASH Completed: 1/31/00  
RAC Analyst: M. Bonney, K. Lucas, E. Pedersen  
Investment Type: Equity  
Capital Funding Source(s): Balance Sheet/Jedi II/Other  
Expected Closing Date: January 31, 2000  
Expected Funding Date: April 30, 2000  
Board Approval: ☐ Pending ☐ Received ☐ Denied ☒ N/A

RAC Recommendation: ☒ Proceed with Transaction ☐ Returns below Capital Price ☐ Do not Proceed

### APPROVAL AMOUNT REQUESTED

Enron North America ("ENA") seeks approval to bid on the sale of MCN Energy Group, Inc.'s ("MCN") ownership in three co-generation and one simple cycle facilities.

Capital Commitment \$58,785\*

\*After non-recourse debt placement and Jedi II equity participation, ENA's equity stake will be approximately \$18.75 MM

### EXPOSURE SUMMARY

This transaction:	\$58,785
Total	\$58,785

### DEAL DESCRIPTION

Enron North America ("ENA") proposes to purchase three Qualifying Facilities ("QFs") in Michigan and California from MCN Energy Group, Inc. ("MCN").

The strategic rationale for acquiring these assets is to (1) restructure the PPAs in order to monetize stranded costs and (2) create new market-based PPAs with the utility that currently purchases power at above-market rates. ENA plans to restructure the PPAs associated with the three QFs by 2002 with a 20% discount on stranded cost to the utility. The value of the restructuring is derived from the delta between the current PPA prices and market-based replacement PPAs based on a curve, which the utility is willing to accept. The new PPAs will be decoupled from the current QFs, and ENA may fill its PPA requirements by buying power from the open market or running the plants. The facilities will essentially act as merchant plants dispatched based on their heat rate and market prices for electricity.

The main value drivers in this transaction are (1) monetization of stranded costs specific to the three QFs, (2) replacement of the PPAs with a short position from the market, and (3) merchant value of the plants. ENA will incur breakage costs associated with unwinding the PPA and associated gas, steam and management contracts, which will take the form of up-front payments to the appropriate counterparties.

The total bid price is expected to be less than \$59 million, financed on a 60/40 debt to equity basis. Debt financing is still to be negotiated with banks and model assumptions are based on Enron Global Finance estimates of achievable financing terms. The facilities will most likely be purchased through a "Friend of Enron" structure, in order to satisfy any regulatory limitations on Enron's ability to hold QF assets. Other structures are also being considered, including Enron ownership through a special purpose vehicle with an option to buy out the investor when permissible (pending approval of a PUCHA exemption request from the SEC).

EC004402126

Background information with regard to the three QFs is as follows:

- The Michigan Power Project ("Michigan Power") is a gas-fired, combined cycle power plant located in Northwestern Michigan (Ludington) that generates up to 129.0 MW (including 6 MW of merchant capacity currently sold to the utility on first right of refusal). The project is currently managed through long-term PPA with Consumers Energy ("CE"), steam contract with Dow Chemical Company and fuel contracts with MCN affiliates. Michigan Power began commercial operation in 1995. The turbines have historically produced about 1 million MWh per year and have a current heat rate of approximately 9,500 MMBtu/kWh
- The Ada Cogeneration Project ("Ada") is a 29.4 MW gas fired combined cycle power facility located in West-Central Michigan. Commercial operation commenced in 1991. Ada serves electricity to CE under a 35 year PPA and maintains a steam contract of equal term with Amway Corporation. Fuel requirements are supplied under a firm Gas Supply Agreement which expires on December 31, 2008. The turbines are 9-years old and have a current heat rate of 10,300 MMBtu/kWh with 190,000 MWh of annual production.
- The Carson Cogeneration Project ("Carson") is a 42.0 MW gas-fired facility located in the Los Angeles, California area. The Carson project provides service to Southern California Edison under a 30 year PPA and provides steam service to



## RAC Deal Approval Sheet

Mountain Water Ice Company. Both contracts expire in 2020. Gas is supplied under short term (one year) contracts at a price equal to the average California border gas price. The turbines at the Carson facility have been in operation since 1990 and have a current heat rate of 9,000 Mmbtu/kWh with 340,000 MWh of annual production.

- The Carson and Ada facilities are operated under long-term contracts with General Electric Plant Operations, Inc. ("GEEPO") and Dynegy provides O&M services for the Michigan project.
- The Carson, Ada and Michigan power facilities have historically met the 5% PURPA power standard and 45% operating efficiency standard necessary to qualify as a Qualifying Facility ("QF") under the PURPA. If, during the term of the PPAs, the Ada or Carson facilities were to lose their status as QFs, then the off-taker may terminate the PPA. In the case of Michigan, CE will be obligated to purchase power pursuant to a tariff set by the appropriate regulatory agency.

The bid submitted by the deal team will be subject to completion of due diligence and implementation of a viable regulatory structure (see Risk Matrix under Legal Risk).

### TRANSACTION SOURCES AND USES OF FUNDS

	<u>Sources</u>		<u>Uses</u>
Enron Equity	\$58,785	Capital Expenditure	\$58,785
Total	\$58,785		\$58,785

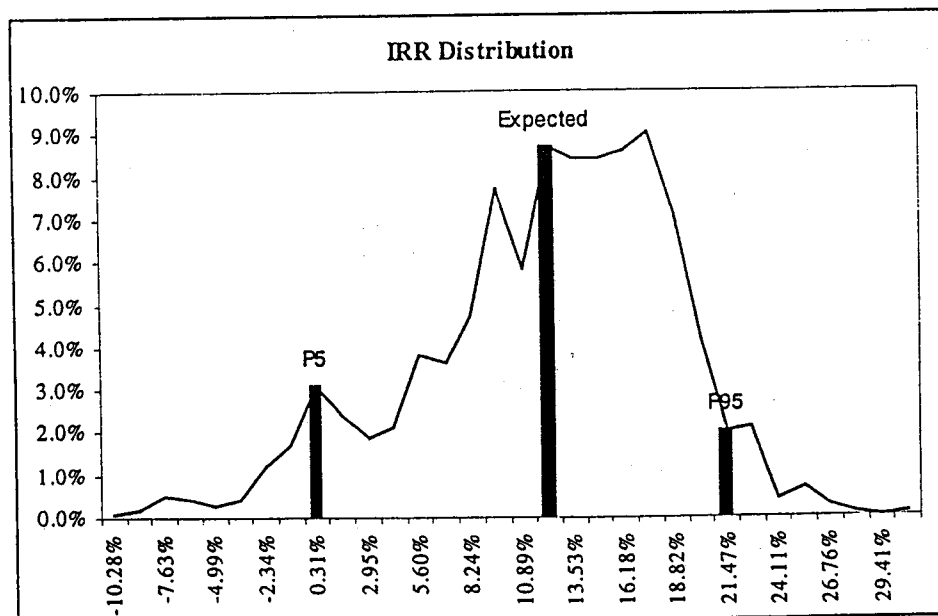
### RETURN SUMMARY

<u>Return Components:</u>	<u>PV @</u>	<u>Cumulative</u>	<u>Capital Price Components</u>	
	<u>Capital Price</u>	<u>IRR</u>		
Cash Outflows	(\$24,676)	-	Risk free rate (%)	6.53%
Fees	(\$ 1,733)	-	Equity/Credit premium (%)	5.02%
Intermed. Cash Flows	\$ 26,173	10.56%	Country Premium (%)	0.00%
Terminal Value	\$ 236	10.81%	Transaction-Specific (%)	-0.55%
<b>Total NPV</b>	<b>(\$0)</b>	<b>10.81%</b>	<b>RAC CAPITAL PRICE:</b>	<b>11.00%</b>

E-Rating

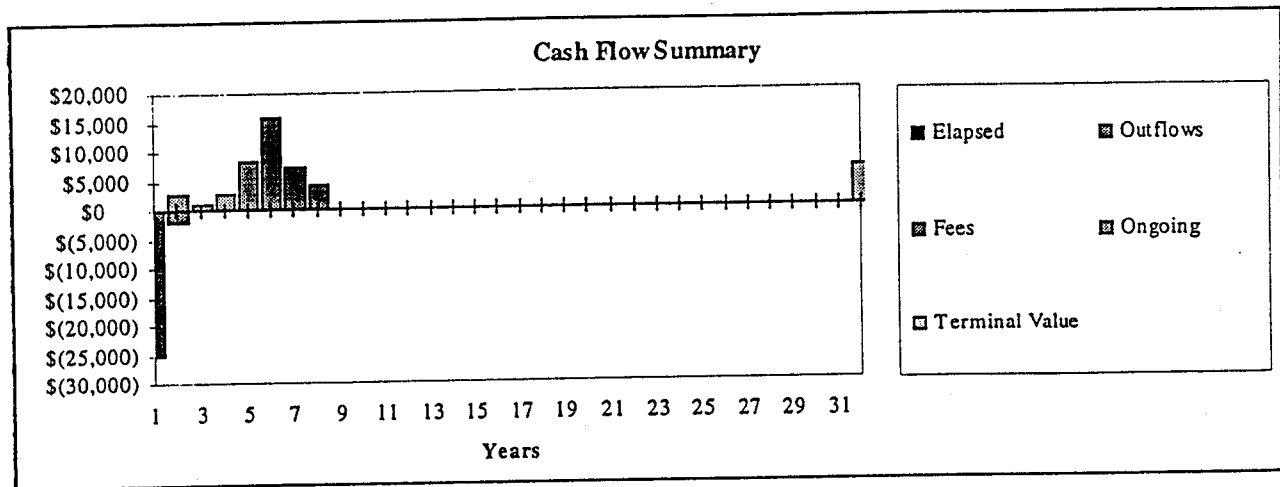
Relative upside ratio

0.437



EC004402127

**RAC Deal Approval Sheet**  
**CASH FLOW SUMMARY**



Cash flow weighted average life: 8.75 years

**TRANSACTION UPSIDES/OPTIONALITY**

(include chart to show impact if appropriate)

- **State-backed securitization plan.**  
 The return summary above assumes that 75% of the time "termination payments" are received from CE over time and are monetized by ENA in the capital markets at a rate reflective of CE's cost of borrowing long-term funds (unsecured credit). To the extent the final deregulation plan for Michigan includes provisions for securitization of stranded cost, the effective rate of monetization will be more reflective of rates seen in the municipal bond market.
- **Replacement PPA at Bid curve.**  
 The return summary above assumes that utility stranded investment and the replacement PPA are priced at ENA's Offer curve. To the extent ENA can buy power at prices below the offer, additional margins will be realized by Enron.
- **Ancillary services provided at the Ada facility.**  
 The return summary above assumes that the Ada Project is shut down at a terminal value of \$50/kW upon PPA restructuring. The facility is currently used to provide voltage support on the CE electric system. To the extent that an ancillary service market develops as a result of deregulation in the Michigan, additional value may be realized from the plant.
- **Expansion of the Ludington site.**  
 The Michigan Power Project is interconnected to the 138 kV system in Northwestern Michigan and has undeveloped land adjacent to the site for future expansion. The state's 5% generation reserve margin, physical constraints currently present in the electric transmission system (which limit delivery of power into the state) and active development of gas pipeline projects in the region make Michigan attractive from a network coverage standpoint. No value has been attributed to future expansion in the above return summary.
- **Transmission constraints as they impact prices used to value merchant plants.**  
 Transmission constraints into Michigan may lead to periods of higher price volatility in the Michigan market than may be reflected in the AEP to Michigan curves used to value merchant assets post restructuring. The ability to realize this value stems from the development of a more liquid power market than exists presently in Michigan. A more liquid market may develop with deregulation in the state and the introduction of multiple suppliers and load aggregators. No value is attributed in the return summary relating to this effect.

**EXIT STRATEGY (Merchant investments only)**

The Region plans to sell the facilities if the restructuring process is successfully achieved either to a third party or to the ENA trading desk.

EC004402128

# RAC Deal Approval Sheet

## RISK MATRIX (Maximum 5)

DESCRIPTION	MITIGATION/COMMENTS
<p><b>Regulatory Risks</b></p> <p>-Risk that restructuring of Michigan Power and/or Ada PPAs will be delayed or does not occur due to uncertainty related to Michigan electric utility industry restructuring.</p>	<p>The progress and timing of deregulation in Michigan may impact ENA's ability to restructure and monetize the Michigan Power and/or Ada PPAs – CE has low incentive to restructure contracts before MPSC determines overall stranded costs. Michigan's Legislature is expected to consider legislation during the 2000 Session – probable passage in <i>Sine Die</i>. If legislation passes by 12/31/00, Consumers Power can expect a MPSC Order on stranded costs within 24 months.</p>
<p>-Risk that Michigan legislation will not provide for Securitization.</p>	<p>Monetization of stranded costs will be greatly enhanced to the extent the final plan for deregulation in Michigan provides state-backed recovery of costs through Securitization. In the absence of legislative mandate, Motown has been modeled using a rate for monetization that is reflective of the utility's long-term cost of borrowing.</p>
<p>-Risk that either MPSC or CPUC do not approve the PPA contract reforms.</p>	<p>The MPSC and CPUC must approve the PPA restructuring. ENA should seek to structure the reformed PPAs to provide ratepayer benefits.</p>
<p>-Risk that MPSC issues enforceable Order providing Consumers Power with a legal regulatory out.</p>	<p>In the initial MPSC Restructuring Order, the MPSC <b>did not</b> address the recovery of stranded costs after 2007 – this issue is currently under appeal. If this is found to be legal, CE could interpret the Force Majeure clause to stop payment to Michigan Power and/or Ada PPAs. There exists persuasive case law <b>apart from this appellate case</b> that supports the proposition that the MPSC cannot limit the time frame for the recovery of QF stranded costs.</p>
<p>-Risk that transmission constraints impact replacement PPA.</p>	<p>See Transmission Risk discussion below.</p>
<p>-Risk that California modifies current policy supporting QF associated stranded costs.</p>	<p>California AB1890 provides for full recovery of QF associated stranded costs. California could modify its current position. There exists persuasive case law that would limit California changing its policies. Mitigation through rapid contract reform.</p>
<p>-Risks inherent with QF status – efficiency/thermal obligations and ownership restrictions.</p>	<p>ENA indicates that both issues are managed.</p>

EC004402129

**RAC Deal Approval Sheet****Merchant asset value**

Risk that estimated merchant value is overestimated.

The model assumes that the current PPA will be replaced with a PPA that is non-specific to the facilities. It is the Region's intention to run the plants as merchant assets.

The merchant value was determined based on input from the East Desk trading floor and the deal team with regard to proper price curves and constraint issues. Three different values were obtained and used as probabilistic parameters in the RAROC model:

- (1) Spread option valuation of \$216/kW (intrinsic) was estimated based on Cinergy plus Michigan basis power curve from 2000-2015, New York plus \$0.30/MMBtu gas curve and treasury rates.
- (2) The deterministic dispatch model yielded a value of \$237/kW based on Cinergy plus Michigan basis power curve from 2001-2020, Chicago City gate plus \$0.15/MMBtu gas curve and a 14% discount rate.
- (3) Regression analysis value of \$301/kW was estimated based on the plants' heat rate and age (R2 of 0.7 and T-stats of ~ -4.5 ).

An expected price of \$237 was used in the model with an extreme value distribution (minimum of \$216 and a maximum of \$301).

**Transmission**

-Risk that ENA will be transmission constrained in filling the electric needs of the utility under a replacement PPA.

The impact of transmission constraints into Michigan is deemed considerable and could impact the pricing and deliverability of power. The problem is deemed to be most critical for the summers 2001 and 2002.

The value of Michigan and Ada as merchant facilities was adjusted for such constraint and the cost of the plant's "optionality" as it relates to fulfillment of the replacement PPA is fully reflected in each plant's merchant value based on the power and gas curves given by the desk. If these offer curves do not reflect the market in 2002, the merchant value of the plants could change.

As the plants located in Michigan are currently interconnected to and operate in parallel with the CE system, the risk of non-delivery from the plants should not materially change due to PPA restructuring.

# RAC Deal Approval Sheet

## Financing assumptions

- Risk that debt cannot be financed at specified rates
- Risk that securitization or monetization will be more expensive than assumed

The model financing assumptions are based on Enron Global Finance estimates of achievable financing terms for the stated facilities in North America. No letters of interest have been obtained from banks at this time.

The model assumes that ENA will leverage its investment. A 14-year loan term based on a swap LIBOR rate plus 138 bp (increasing to L+175) was assumed as new debt to the project. Average and minimum interest coverage limits were assumed to be 1.35 and 1.50, respectively.

Existing debt at the asset level is paid according to the current financing terms. Michigan has \$130 million of outstanding debt paying LIBOR + 125-200 bp over 13 years. Ada has \$30 million in Bank debt paying LIBOR + 88 bp for 8 years. Carson's current debt is \$60 million, financed at a fixed rate of 8.30% and payable over 20 years to expire in 2019.

The power off-takes, CE and Southern California Edison, are rated BB and A, respectively. Model financing assumptions were based on achievable financing terms for these entities under the monetization scenario and for a state entity under a securitization scenario. A 25% probability was given to the chance of realizing value through securitization.

## Price Risk

- Risk that curves move against ENA

The economic value of this transaction is derived from converting existing PPAs to market-based, fixed-priced PPAs. ENA will manage the price and delivery risk associated with the restructured PPA. ENA will also wear the price risk on the physical assets.

Restructuring is not likely to occur until 2002 at which time the relevant power and gas curves is highly likely to be different from today. The deterministic impact of a 5% increase in the price of power (ceteris paribus) reduces the transaction IRR by 1,000 bp.

## Legal Risk

- Diligence on Projects Not Complete

Diligence is still continuing on the Projects, but is nearing completion. The primary area in which diligence is still underway is with respect to environmental matters. Nothing in the completed diligence indicates any non-standard risks or issues. There will be a diligence out in the bid letter.

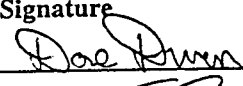
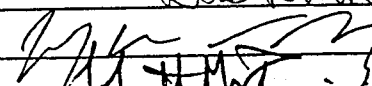
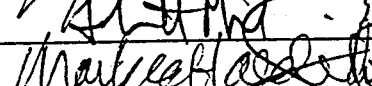
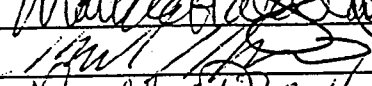
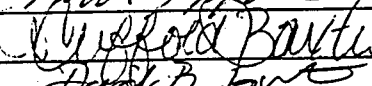
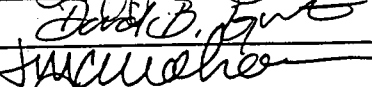
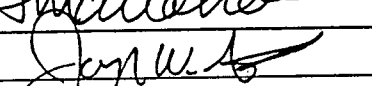
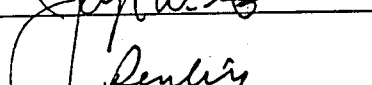
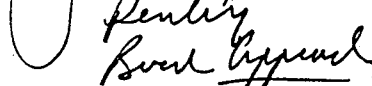
- Corporate Governance

The ENA interests will in no case have control over the affairs of the Project entities in question and in the case of the Carson facility less than 50% will be owned. Thus the ability of the ENA interests to influence the actions of the Project entities will be restricted. The ENA interests will, however, be the managing general partner of the Ada facility and will, in each case, hold a substantial interest

- Regulatory Permissible Structure

Due to Enron Corp.'s status as a "public utility" under federal law, either an exemption from restrictions on direct ownership by ENA of the QF interest must be obtained or a regulatory "friendly" third party investor structure must be utilized. In the event that the latter course must be followed, the co-option of the remaining parties in each Project and the lenders in each Project must be obtained. None of these parties have yet been contacted. In mitigation of this, it is noted that ENA has been able to successfully employ the relevant structure twice previously (although some indemnification by Enron Corp. may be required) and the bid letter will contain an out with respect to regulatory structure requirements.

# RAC Deal Approval Sheet

APPROVALS	Name	Signature	Date
Originator	Doug Clifford / Dave Duran		1/31/00
Regional Management	Jeff Donahue		1/31/00
Tax	Jordan Mintz		1/31/00
Legal	Mark Haedicke		1-31-00
Regulatory Affairs	Richard Shapiro		1/31/00
ENA Management	Cliff Baxter		2/1/00
RAC Management	Rick Buy / Dave Gorte		1/31/00
Enron Global Finance	Andy Fastow / Jeff McMahon		
ENE Management	Jeffrey Skilling / Joe Sutton		

Pending  
Board Approval.

# Global Finance Summary (addendum to DASH)

## 1. Transaction Summary

North America proposes to purchase three Qualifying Facilities in Michigan and California from MCN Energy Group, Inc.

Total Deal/Project Capital Commitment

Less: Financings

Less: Syndications *(100% JEDI 2)*

Net Enron Investment *on DR sheet*

Amount (\$000)

59,000

34,000

~~6,250~~ 12,300

18,750 13,000

## 2. Investment terms and pricing:

☒ Market

☐ Above Market

☐ Below Market

Describe (if necessary):

## 3. Financing terms and pricing:

☒ Market

☐ Above Market

☐ Below Market

Describe (if necessary):

*Project Finance*

## 4. Legal or practical liquidity restrictions:

☒ Unrestricted

☐ Legally Restricted

☐ Practically Restricted

Describe (if necessary):

## 5. Any recourse to Enron (other than investment):

☐ Recourse

☒ No Recourse

Describe (if any):

## 6a. Business unit intent to syndicate:

☐ None

☒ Partial

☐ All

Describe (if necessary): This is a JEDI II Qualified Investment. We will use a RADR structure which will result in Enron having an option to own 75% and Calpers via JEDI II having an option on 25%.

*BUSINESS UNIT (B KERRIGAN) AGREES TO SYNDICATE PROJECT FINANCINGS BY YEAR END 2000. JIM*

## 6b. Intended Enron hold period:

Enron intends to hold its equity at least until it can restructure the PPA.

## 6c. Likely Syndication Market:

☐ Industry/Strategic Partner

☐ Direct Private Equity

☐ Capital Markets

☐ JEDI 1

☒ JEDI 2

☐ Enserco

☐ LJM 1 or 2

☐ Condor

☒ Other:

☐ Margaux

A friend of Enron will need to initially hold a 3% equity piece for regulatory / QF reasons.

## 6d. Is this a JEDI 2 "Qualified Investment"?

☒ Yes

☐ No

Global Finance Representative:

*Michael J. Jink*  
Signature

*Michael Jink*  
Name (Printed)

*1/31/02*  
Date

EC004402133

**M-8**

EC004402134



# ENRON RISK ASSESSMENT AND CONTROL ADDENDUM TO DEAL APPROVAL SHEET

DEAL NAME: Octagon  
Counterparty: Octagon Energy Ltd.  
Business Unit: Enron Europe (Corp. Development)  
Business Unit Originator: Chris Harris  
☐ Public ☒ Private  
☒ Merchant ☐ Strategic  
☒ Conforming ☐ Nonconforming

Date DASH Completed: February 7, 2000  
RAC Analyst: Olivier Herbelot  
Investment Type: Debt  
Capital Funding Source(s): JEDI II/Balance Sheet  
Closing Date: February 9th, 2000  
Expected Funding Date: February 9, 2000  
Board Approval: ☐ Pending ☐ Received ☐ Denied ☒ N/A

RAC Recommendation: ☒ Proceed with Transaction ☐ Returns below Capital Price ☐ Do not Proceed

## APPROVAL AMOUNT REQUESTED

This DASH stands to correct the Octagon DASH approved 9/11/99. The approved amount should have been reflected as £11.5MM (\$18.4MM), not £10MM (\$16MM) as reflected in the original DASH. The lower amount originally approved is the notional amount of the loan being made to Octagon, but does not reflect interest capitalized by the borrower during the first two years of the project's operation which is projected to bring the maximum outstanding balance to £11.5MM. The RAROC model and economics presented on the original DASH both contained the assumption that up to £1.5MM of interest would be capitalized and the results of the RAROC model from the original DASH remain unchanged.

## EXPOSURE SUMMARY

This transaction:	£11.5MM	(\$18.4MM)
Total	£11.5MM	(\$18.4MM)

## DEAL DESCRIPTION (From original DASH - Changes in Bold)

Enron Europe proposes a £10MM (now £11.5MM) secured debenture to finance the coal bed methane ("CBM") development of Octagon Energy Ltd. ("Octagon"). The £10MM (now £11.5MM) facility is divided into four tranches of up to £2.5MM (\$4MM) each drawable over 2 years and up to £1.5MM of capitalized interest during the first two years. The facility has a life of 7 years. Each ensuing tranche of financing will only be provided with Enron's approval as success is demonstrated in the project. While the existence of the CBM is known, commercial viability of its extraction and use to fuel electric power generation must be proven. This transaction has been structured to minimize Enron's commitment while providing exposure to the potential upside.

The terms of the financing are as follows with Enron receiving: 1) A semi-annual coupon of 12.5% p.a. 2) An up front arrangement fee of £300,000. 3) A commitment fee of 0.50% p.a. on the undrawn part of the facility. 4) Warrants for from 20% to 35% of Octagon's equity, depending on utilisation of the facility. 5) Rights to 15% of Octagon's emissions credits and pre-emptive rights on the remaining 85% of emissions credits. 6) A 15-year PPA with Octagon to hedge the power produced by Octagon. Enron will also receive a seat on Octagon's Board.

The PPA provides a fixed-price power swap for the first five years on the base case production with an option to apply this fixed price to 44% of any power upside generated. For years 6-15 it purchases power at the market price less a fixed discount for the base case production, and at market for any excess. The PPA also gives Enron 15% of the valuable "embedded benefits" (i.e. use of system savings passed on by the regional electricity supply company) received by Octagon as a local power producer. Trading profits to be realized by Enron from the PPA have not been modeled by RAC, but have an estimated NPV of £5.6MM (\$9MM) (now £3.1MM - \$5.02MM).

Octagon is an UK based company with a business plan focussing on exploration and production of CBM projects as a fuel source for embedded electricity generation. It acquired the full British Coal UK CBM data set following privatization then acquired licenses in what Octagon felt would be the most productive CBM areas. Currently Octagon is one of the largest CBM acreage holders in the UK with majority interests in 16 license blocks for CBM exploration covering 1,571 square km. Octagon will be converting the CBM to electric power using small mobile power generation units and will sell the power to Enron under the 15 year PPA described above.

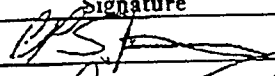
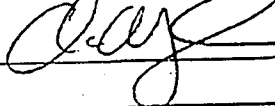
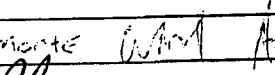

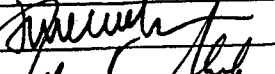
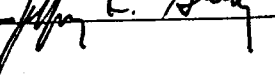
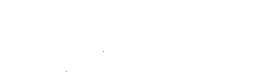
Approval is now requested in this Addendum to DASH to reflect the total Octagon transaction amount as \$18.4 million.

## TRANSACTION SOURCES AND USES OF FUNDS (\$ 000's)

	<u>Sources</u>		<u>Uses</u>
Enron Balance Sheet	18,400	Debt	18,400
Total	18,400		18,400

EC004402135

OTHER RAC COMMENTS: N/A

APPROVALS	Name	Signature	Date
Originator	Chris Harris		9/2/00
Business Unit Mgmt.	Paul Chivers/Christoph Waltenspuel		9/2/00
UK Power Risk Mgmt.	Richard Lewis		
Regional Mgmt.	John Sherriff		
Legal	Michael Brown		
RAC Technical	Monte Gleason <i>WALT HARRIS for monte</i>		9/2/00
RAC Management	Dave Gorte/Rick Buy		2/8/00
Enron Global Finance	Paul Chivers		9/2/00
Enron Global Finance	Jeff McMahon		10/2/00
ENE Management	Jeffrey Skilling		2/10/00

**M-9**

EC004402137

# ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

DEAL NAME: OPET  
Counterparty: OPET Petrolcültük A.S.  
Business Unit: Corporate Finance Origination  
Business Unit Originator: John Bottomley  
☐ Public ☒ Private  
☒ Merchant ☐ Strategic  
☒ Conforming ☐ Nonconforming

Date DASH Completed: 25 February 2000  
RAC Analyst: Renata Frankova  
Investment Type: Equity  
Capital Funding Source(s): Balance Sheet  
Expected Closing Date: 29 February 2000  
Expected Funding Date: Tranche 1 = 1Q2000; Tranche 2 = 3Q2000;  
Tranche 3 = 4Q2000.  
Board Approval: ☐ Pending ☐ Received ☐ Denied ☒ N/A

RAC Recommendation: ☐ Proceed with Transaction ☐ Returns below Capital Price ☐ Do not Proceed

*RAC is not currently in a position to recommend the deal despite its positive NPV in view of the fact that (i) it carries significant downside risk (Enron faces a 50% chance of a negative return and a 66% chance of a negative NPV, assuming that there is an IPO) and (ii) it lacks clear strategic benefits to Enron (see RAC Comments).*

## APPROVAL AMOUNT REQUESTED

Approval is sought for \$ 9,975,000 to exercise 84,000 warrants into 7.7% equity in OPET, a Turkish petroleum products marketing company (Tranche 1). Exercise of Tranche 1 will allow Enron to retain additional warrants on 9% more of OPET's equity (Tranches 2 and 3). Exercise of Tranches 2 and 3 will require separate approvals.

*This DASH replaces the DASH approved 17 November 1999 for a \$17m subordinated-debt facility to OPET which the company eventually rejected. The exposure reflected on this DASH constitutes Enron's only exposure to OPET.*

## EXPOSURE SUMMARY

This transaction:	Equity	\$ 9,975,000
Global Fuel contract:	Credit Reserve	\$ 60,000 (corresponding to a possible 1-year fuel supply)
	Value at Risk	\$ 0
	Total	\$ 10,035,000

## DEAL DESCRIPTION

The Company: OPET is a Turkish family-owned petroleum products company with 1999 (unaudited) turnover of US\$ 992.8 million, EBITDA of US\$ 42.4 million and net income of US\$ 21.2 million. The company owns: (i) import/storage facilities; (ii) a wholesale business; and (iii) a retail network composed of 465 franchised gas stations under the OPET brand. OPET is the 4<sup>th</sup> largest petroleum products distribution company in Turkey with a 9.6% market share in white products, and a 4.9% market share in black products (see Annex 1). EBITDA had been growing at an average of 12% per year from 1996 to 1998 but increased by 180% from 1998 to 1999 due to market liberalisation, company market share growth and rising product prices.

The Transaction: In December 1999, Enron was given a series of warrants on OPET's equity with the characteristics outlined in the table below.

Tranche #	Tranche Expiration Date	# of warrants / shares	Capital Amount (\$mm)	Equity Shareholding
1	29 February 2000	84,000	\$9.975	7.7%
2	15 July 2000	34,800 <sup>1</sup>	\$4.132	2.9%
3	15 December 2000	81,200	\$9.643	6.1%
Total		200,000	\$23.750	16.7%

All warrants have a strike price of \$ 118.75. Each tranche must be exercised in its entirety and a given tranche can only be exercised if the previous one has been exercised. Enron will be given a seat on OPET's Board upon exercising Tranche 1 and will retain it provided that Enron's share of equity does not drop below 7.5% (which could well happen in case of an IPO unless Enron acquires additional shares; Enron is otherwise protected against dilution under the Subscription Agreement). Also, if Enron were to acquire a direct equity interest in one of OPET's competitors in Turkey, the Turkish shareholders would have the right to buy all Enron shares back at \$118.75 per share.

## TRANSACTION SOURCES AND USES OF FUNDS

Sources		Uses	
Equity Capital (Tranche 1)	\$9,975,000	New storage facility in Marmara (Phase 1)	\$9,975,000
Total	\$9,975,000		\$9,975,000

<sup>1</sup> Enron has the option to exercise 58,000 warrants in Tranche 2 and 58,000 in Tranche 3 (instead of 34,800 and 81,200).

EC004402138

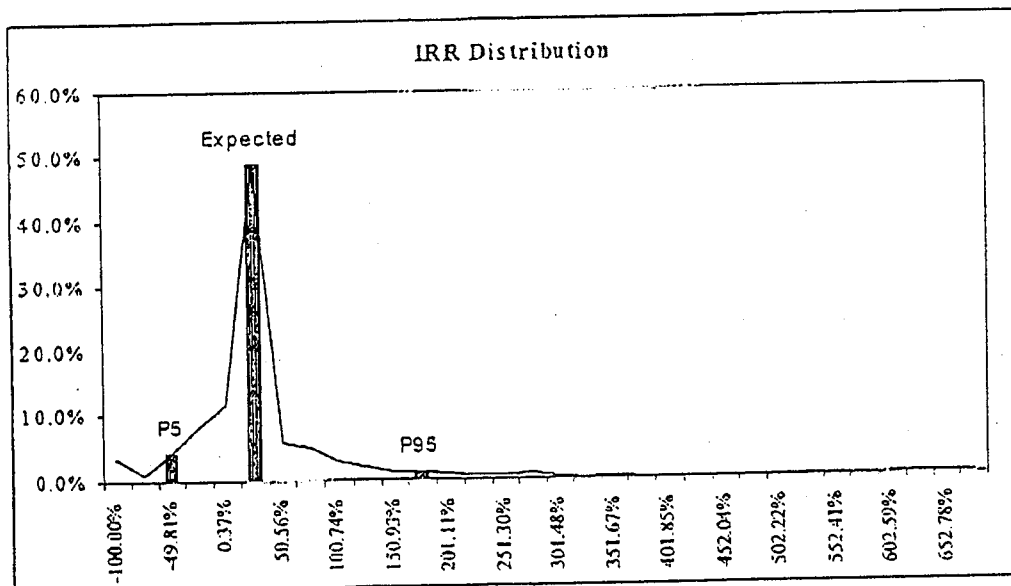
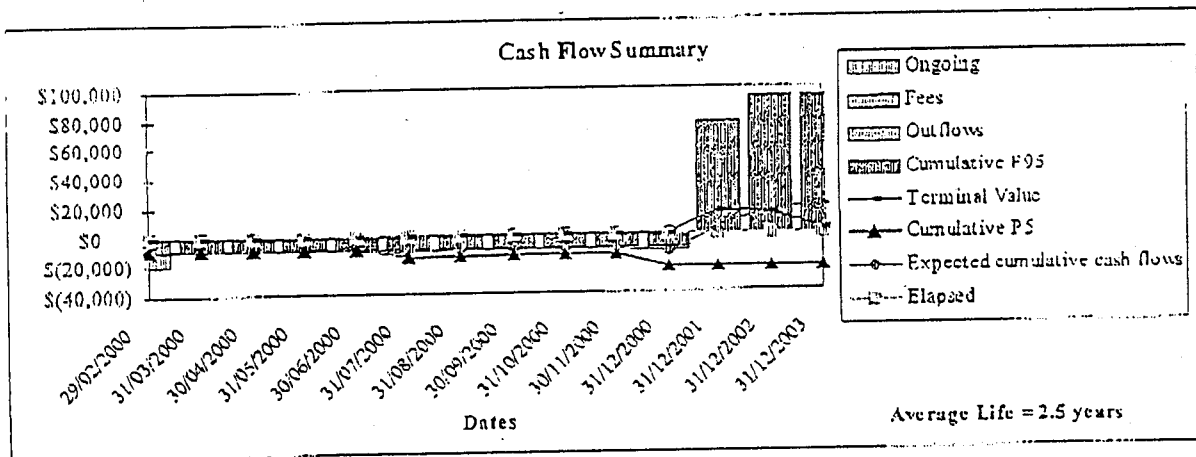
RETURN SUMMARY

Return Components (*):	PV @ Capital Price	Cumulative IRR	Capital Price Components	
Tranche 1 (equity)	(321)		Risk free rate (%):	6.7%
Tranche 2 (warrants)	1,379		Country Premium (%):	2.6%
Tranche 3 (warrants)	3,071		Company Risk (%) (**):	20.7%
<b>Total NPV</b>	<b>\$4,129</b>	<b>48%</b>	<b>RAC CAPITAL PRICE:</b>	<b>30%</b>
Turkey E-Rating	9			

(\*) The model assumes that Tranche 1 is exercised but that Tranche 2 and 3 are only exercised if the RAROC model shows that it is optimal to do so.

(\*\*) The capital price was calculated using two separate methods that yielded similar results: (i) a modified CAPM-formula using the ratio of Turkish to US equity market volatilities to assess the company risk (following a Goldman Sachs approach); and (ii) a build up from RAC's 22% subdebt price as calculated in November 1999, which itself was based on the company's senior bank debt price.

CASH FLOW SUMMARY



**TRANSACTION UPSIDES/OPTIONALITY** (not included in financial model)

The transaction could create supply opportunities for the Global Fuels team, even though it has so far proved difficult to execute a transaction with OPET.

The Turkish origination group considers that the deal could lead to a number of opportunities, in particular:

- Leveraging Enron's trading and risk management expertise to optimize OPET's operations by (1) establishing a 'trading hub' to supply other distribution companies by using unused import quotas and (2) providing risk management and hedging activities to minimize the price risk between wholesale purchase and retail sale;
- New business opportunities such as bunkering business near Istanbul, naphtha supply/fuel switching, and possible LPG supply;
- Enron's merchant business will be able to utilize OPET facilities;
- OPET's existing facilities at Mersin can be used by Enron's autogeneration facility plans in southern Turkey; and
- In conjunction with potential natural gas from the recently approved Thrace basin, OPET would provide Enron with a full range of energy product capabilities in Europe's fastest growing energy market.

However, neither the Turkish origination group nor the Global Fuel team considers the proposed transaction as indispensable for their activities in the region.

**EXIT STRATEGY**

- If IPO, sale of the equity in the public market or through a block/strategic sale (Turkish shareholders currently have a right of first refusal).
- If no IPO within 3 years, Enron has a right to put its equity back to the Turkish shareholders at a strike price of \$175/share (which would correspond to an annual return on our original investments under each tranche of 14%, 16% and 20% respectively).

**RISK MATRIX (TOP 5 ONLY)**

DESCRIPTION	MITIGATION/COMMENTS
Exit Strategy	<p><u>IPO Timing.</u> OPET is seeking to conclude an IPO on the Istanbul Stock Exchange (ISE) within 3 years in order to fund its future growth. Investment banks consider that 2Q and 3Q 2000 constitute a window of opportunity for IPOs in Turkey given the market's current appetite for Turkish exposure, but a number of large IPOs already announced for the same period could affect the demand for OPET shares. Also, investment banks are stressing that Enron's commitment to stay in for the long term would be key, and envision Enron participating in IPO roadshows.</p> <p><u>Value.</u> Enron is unlikely to be able to sell its shares before Spring 2001 at the earliest since: (i) double taxation would apply if we sold to a Turkish resident within one year of purchasing the shares; and (ii) we are likely to face a lock-up period of at least 6 months in case of an IPO. In the meantime, we will be subject to the large volatility of the Turkish equity market (historically 73% per year – see RAC Comments).</p> <p><u>Liquidity.</u> There is a significant liquidity risk on the ISE since it is not clear what percentage of the company will be offered through IPO (the Turkish shareholders wish to retain at least 51% ownership). Daily trading volumes on the ISE averaged \$300m in 1999. Comparable companies had daily volumes of about 5% of free floating shares. The model assumed a 30% liquidity discount and a sale one year after IPO.</p> <p><u>Renegotiation Risk.</u> It is expected that a number of clauses under the Subscription and Shareholders Agreement may have to be renegotiated between Enron and the Turkish Shareholders in case of an IPO.</p>

RAC Deal Approval Sheet

Deal Name: OPET

	<p>If an IPO is not concluded within 3 years Enron will be allowed to put its holding back to the Turkish shareholders (see Exit Strategy above). Lack of information on their personal wealth makes the corresponding credit risk difficult to assess, but Enron will have recourse to the Company if the Turkish shareholders are not able to pay (amount would be between \$14.7 and \$35 million depending on how many Tranches Enron has exercised).</p>
Competitive Environment and Impact of POAS/Tupras Privatizations	<p>The planned privatization of POAS – the largest distribution company – may create a price-cutting environment forcing margins down and making it much more difficult for OPET to increase market share, particularly given its relatively small retail network and weakness in metropolitan areas. This risk is only partly mitigated by Arthur Andersen (AA)'s belief that: (i) the acquisition costs and high investments required to maintain POAS' current network may prevent it from becoming a cost-cutter; and (ii) OPET's steadily improving network of sites and "impressive management" should position it well vis-a-vis its competitors.</p> <p>The planned IPO of Tupras -- the domestic refinery company -- could give control of refining activities to competitors, thereby potentially affecting OPET's expansion plans, market share and margins. This risk is partly mitigated by OPET's strong import-orientation, which makes the company less dependent on domestic refining. Also, if a large industrial player (Shell or BP) acquired Tupras, the government would probably relax the 60/40 rule, which requires distributors to source at least 60% of their products domestically.</p>
Regulatory/Sovereign Risk	<p>OPET's operation is subject to significant regulatory risks, reflecting the only partial and recent deregulation of the sector. In particular, the margins of petroleum product distribution and retail companies are still capped by Government at a level 20-80% lower than in the rest of Europe, even though the 1998 Automatic Pricing Mechanism (APM) contributed to "de-politicizing" downstream pricing somewhat. Similarly, the fuel consumption tax is still subject to significant regulatory uncertainty, which the Government is trying to reduce by linking it partly to the Turkish wholesale price index.</p> <p>Enron's overall political risk insurance (PRI) will cover expropriation, political violence, war and currency risk. The RAC capital price above uses Turkey's sovereign bond spreads against US Treasury yields as a measure of sovereign risk (PRI premiums were therefore not included in the model). Those spreads have narrowed significantly in recent months, reflecting market optimism about Turkey's relationship with the EU and the perspective for an IMF agreement. GDP growth is forecasted by EIU at 5% in 2000 and 4.5% in 2001.</p>

# RAC Deal Approval Sheet

Deal Name: OPET

Management Risk	<p><u>General Manager.</u> He joined OPET in mid-1996 from Shell and has been making a key contribution to performance of the company since then. His departure would have an adverse impact (AA views him as "pivotal"). However, he recently signed a 5-year contract and has a good working relationship with the family owners.</p> <p><u>Working Capital.</u> The strong growth of OPET's retail network, the Automatic Pricing Mechanism (see above), the 60/40 rule, OPET's high inventory turnover and the currently significant difference between the company's receivables and payables, could lead to a considerable growth in working capital requirements. This risk should be partly mitigated by the Company's new policy of matching credit received from suppliers with credit extended to clients (as demonstrated by recent financial statements), as well as by the proposed infusion of new equity.</p> <p><u>Izmit Terminal.</u> The Izmit terminal suffers from deficiencies in its fire protection system as well as ground contamination caused by operation at a nearby refinery. OPET has committed itself to increase its insurance protection and undertake a baseline environmental audit in order to limit the risk of future liabilities.</p>
Petroleum Product Contraband from Iraq	<p>Illegal product imports from Iraq have now reached 20% of overall domestic consumption and are likely to rise further given the continued expected market growth, earthquake damage to Izmit domestic refinery and the 60/40 import limitation rule. This is likely to affect the overall Turkish market, even though OPET may be somewhat less affected because of its focus on the North/West of the country. Also, the government is in the process of legitimizing this trade by taxing such imports.</p>

## KEY SUCCESS FACTORS

	N/A	Poor	Excellent
Core Business		✓	
Strategic Fit		✓	
Upside Potential			✓
Management			✓
Risk Mitigation		✓	

## OTHER RAC COMMENTS:

The equity investment (Tranche 1) provides a marginal return and the value of the Tranche 2 and 3 warrants derives primarily from the high volatility of the Turkish stock exchange in case of an IPO. The RAROC simulation shows that, assuming that there is an IPO, Enron faces a 50% chance of a negative return on our investment and a 66% chance of a negative NPV. In case of no IPO, the return is expected to be sub-market (i.e. negative NPV).

Using a multiple analysis and on the basis of summary accounts only, OPET's equity value was estimated by CSFB at \$250-315 million and by ABN Amro/Rothschild (ARR) at \$275-325 million. Salomon Smith Barney (SSB) calculated a value of \$200 million, based on a highly simplistic no-growth DCF model. Enron's model gives a value of \$206 million in the case of an IPO. Based upon exercise of Tranche 1 only, Enron's cost of \$9.975 million compares to an estimated value for 7.7% of OPET of \$19.3-24.3 million from CSFB, \$21.2-25.0 million from ARR and \$15.4 million from SSB. Based upon the exercise of all three tranches, Enron's cost of \$23.8 million compares to an estimated value for 16.7% of OPET of \$41.8-52.6 million from CSFB, \$45.9-54.3 million from ARR and \$33.4 million from SSB.



RAC Deal Approval Sheet

Deal Name: OPET

APPROVALS

Business Unit Originator

Turkish Origination

Legal

ENE Europe Management

Enron Global Finance

RAC Management

ENE Management

Name

John Bottomley

Tim Battaglia

Michael Brown

Mark Frevert

John Sherriff

Jeff McMahon

Paul Chivers

David Gorte/Rick Buy

Steve Young

Jeffrey Skilling/Joe Sutton

Signature

Date

28/2/00

28/2/00

28/2/00

28/2/00

28/2/00

28/2/00

28/2/00

28/2/00

ANNEX 1

Sales of Road Fuel Grades, Retail (1998)

	No of Sites	White Products (diesel & gasoline) (thousand tons)	Black Products (thousand tons)	Storage Capacity (cubic meters)
POAS	4,715	4,555	3,422	880,900
BP	728	3,158	731	76,400
Shell	592	1,786	316	73,800
OPET	465	1,432	251	217,000
Turkpetrol	771	1,352	62	62,700
Total	347	947	91	306,000
Elf	131	514	7	37,300
4 Other Turkish Comp.	446	1,171	257	85,000
Total	8,195	14,915	5,137	1,739,000

# DEAL DEFINITIONS

<u>Bid Bond</u>	A letter of credit or surety bond delivered at the time of submission of a bid. It guarantees that if the bidder is awarded the project that is the subject of the bid, the bidder will execute the relevant project documents in accordance with the terms of the bidder's bid.
<u>Deal Description</u>	short written summary of the investment.
<u>Deal Name</u>	Unique name for an investment/deal usually defined by Capital Pricing director or Business Unit Originator.
<u>Deal Risk Premium (%)</u>	Premium for a deal derived by a comparison of the transaction volatility of returns to historical sector volatility of returns; additionally incorporates any other adjustments for risks specific to the transaction. Premium could be negative if the transaction exhibits less risk than is reflected in the unadjusted capital price.
<u>Capital Commitment (\$M)</u>	Expected present value of cash outflows in the transaction.
<u>Expected IRR (%)</u>	the discount rate at which the net present value of the expected cash flows would be equal to zero. This measures the expected return of the transaction but does not incorporate a measure of risk.
<u>NPV @ Capital Price (\$M)</u>	Net Present Value at the Capital Price discount rate.
<u>Risk-Free Rate (%)</u>	the rate derived by weighting Treasury curve rates by the expected cash flows in the corresponding periods.
<u>Type of Investment</u>	Specific type of investment. For example, VPP, LP, loan, equity, alliance, debt, derivatives, refinance, and physical sales. Sometimes referred to as Instrument Type.
<u>Value at Risk (\$M)</u>	The loss in value over a specified period of time (quarterly, daily, etc.) which will be exceeded with a certain probability. Evaluated based on market comparables.

**M-10**

EC004402145

# ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

DEAL NAME: OS Integration Holdings Limited  
Counterparty: Current Owners/Managing Directors  
Business Unit: New Ventures  
Business Unit Originator: David Pope  
☐Public ☒Private  
☒Merchant ☐Strategic  
☐Conforming ☒Nonconforming

Date DASH Completed: 21 March 2000  
RAC Analyst: P. S. Thuraishingham  
Investment Type: Private Equity  
Capital Funding Source(s): Balance Sheet  
Expected Closing Date: April 2000  
Expected Funding Date: April 2000  
Board Approval: ☐Pending ☐Received ☐Denied ☒N/A

RAC Recommendation: ☐Proceed with Transaction ☐Returns below Capital Price ☐Do not Proceed

The investment in OSI appears to be at an attractive valuation based on values for similar companies in today's public markets. However, RAC does not recommend this investment until OSI's ability to generate cash sufficient for working capital and major expenditures prior to the IPO can be evaluated. A cash flow model agreed between Enron and OSI is recommended in order to illustrate how cash will be managed as the consulting staff is doubled (assuming they are billed at historical levels) and the company increases to a size necessary to sell to the public markets. The commercial team has stated that the growth in consultants and revenues at the levels currently projected (see Risk Matrix below) will be key to the success of this investment. The lack of a cash flow model also does not allow for the analysis of this investment if Enron is forced to retain its interest and ultimately sell to a private investor.

The following issues are also necessary and are expected to be addressed prior to closing:

- Enron is given the ability, as minority investor, to veto major decisions (eg. acquisitions, dividends, future sale of equity etc.).
- Receipt of audited accounts (fiscal 1999).
- Satisfaction with the results of due diligence presently being completed.

Receipt of the items noted above are particularly important for the following reasons: (i) this investment is non-traditional compared to other technology-related investments made by Enron; (ii) the IPO market for internet and high-tech companies is highly volatile and Enron might be forced to maintain its interest in OSI beyond the initial estimated exit date; and (iii) there has been limited commercial due diligence performed to date on this company.

## APPROVAL REQUESTED

**Amount:** Up to \$11.2 million.

**Purpose:** Purchase, from current owners, of 30% private equity interest in OS Integration Holdings Limited (OSI), a UK-based IT consulting and e-commerce enabling company.

**Requirements:** After closing, the deal team will submit to EEL's Senior Management and RAC going forward (i) audited accounts when available; and (ii) monthly Management Accounts per section 9.4 of the latest Shareholders' Agreement showing the revenues, operating results and overall results, relevant cash flow information, and performance compared to budget. These monthly reports shall also describe the status of the implementation of OSI's strategy and major projects as set out in the Budget and update details on projected capital requirements.

## EXPOSURE SUMMARY

Prior to transaction:	\$ 0.0 million	
This transaction:	\$ 9.6 million	Expected purchase price
	<u>\$ 1.6 million</u>	Estimated maximum price adjustment following receipt of 1999 and Q1 '00 audited accounts
Total:	\$ 11.2 million	

## DEAL DESCRIPTION

EC004402146

### Transaction:

Enron proposes to acquire a 30% equity interest in a new company (Newco) which will be established to acquire the entire share capital of OSI in return for the issue to the two co-founders of: (i) 70% of Newco's shares, (ii) loan notes for an amount equivalent to the expected purchase price and (iii) a cash payment to reflect any positive balance in OSI's working capital and net assets. The principal amount of the loan notes will be adjusted down by an amount equal to 30% of any decrease in working capital and net assets between end-1999 and completion. The loan notes will be redeemable in amounts of £250,000

**RAC Deal Approval Sheet****Deal Name: OS Integration Holdings Limited**

no earlier than the first interest payment date falling six months after issue and on each subsequent payment date. The loan notes will expire on the eighth anniversary at which point the remainder will be redeemed, together with accrued interest. The loan notes will accrue interest (LIBOR - 1%) which will be payable every six months.

Enron will have one director on OSI's board who will be the Chairman, alongside the two co-founders who will remain on the OSI board. In addition, an Enron employee will be seconded to OSI for at least 6 months to assist with business development.

**Background:**

OSI was founded in 1991 specializing in networks, application development, and data warehousing. Over the last 18 months, OSI has ventured into the area of e-commerce consulting and web development.

OSI has partnership agreements with Microsoft, Dell, and Novell to provide services to commercial and industrial customers mainly in Europe. OSI has delivered successful solutions to leading organizations like British American Tobacco, Dresdner Kleinwort Benson, The Houses of Parliament, ING Barings, Unilever, Vodac/Vodafone, among others. OSI has also done some work for Enron Europe in the past and the IT department was impressed by their performance.

OSI has a commercial staff of about 100 with the two co-founders, Richard Thwaite and Michael Altendorf, acting as joint managing directors. Each of them currently owns 50% of the issued shares of OSI and the employees may acquire up to 20% of the shares through a share option plan. OSI's current business is approximately 50% e-commerce enabling and 50% IT consulting. Unaudited 1999 accounts show revenues of \$15.5 million, a 15% increase with respect to the previous year; in addition, profits before taxes and minority interests increased by 4% to \$2.8 million in 1999. The intention is to grow OSI dramatically over the next 12-18 months, at least doubling the number of commercial employees by recruitment and potential additional acquisitions of other similar companies.

**TRANSACTION SOURCES AND USES OF FUNDS**

	<u>Sources</u>		<u>Uses</u>
Enron Balance Sheet	\$11.2m	Purchase of Equity	\$9.6m
		Possible Adjustment to Purchase Price	\$1.6m
Total	<u>\$11.2m</u>	Total	<u>\$11.2m</u>

**VALUE PROPOSITION****Return Summary:**

No financial model of sufficient substance was provided to evaluate this transaction, as the origination team believes that OSI's future performance and strategy are too uncertain to model. Instead, the purchase price was the result of negotiations between the origination team and OSI and corresponds to a total value of \$32 million for 100% of OSI's equity.

In the absence of a detailed model, RAC isolated and evaluated OSI's e-commerce revenues (which correspond to approximately 50% of its total revenues), and applied a 30% liquidity discount. Current market comparables would imply a value of \$70 - \$100 million for OSI (depending on whether a market cap/employee or market cap/sales multiple is used). However, the comparison is somewhat misleading since OSI is not currently traded (see Annex 1 for details on the basket of comparables).

**Transaction Upsides/Optionality (not captured in the Return Summary):**

The proposed transaction would provide Enron with:

- Opportunity to gain expertise in e-commerce related ventures
- Potential exposure to internet start-ups, VC community and IPO market

**EXIT STRATEGY**

OSI's current plan is to IPO in the next 12 to 18 months. However, IPO market conditions cannot be forecasted. Under most IPO arrangements, Enron is likely to be subject to a lock-in period of at least 6 months beyond the IPO date. If an attractive bid is received beforehand then Enron might consider selling its interest. However, there are tag-along rights in the event Enron wants to liquidate more than 50% of its equity interest which might make this somewhat more difficult.

**RISK MATRIX (Main 5 Risks Only)**

RISK MATRIX (Main 5 Risks Only)																										
DESCRIPTION	MITIGATION/COMMENTS																									
Retention of Key Staff	The retention and continued performance of key staff, particularly the two managing directors, are key to the growth of the business. In the proposed structure, the two managing directors will retain a sizeable equity stake (each having 35% of issued shares) in OSI, encouraging them to maintain their role in its continued success. Both managing directors are to be tied in under fixed term contracts.																									
IPO Risk	The main value driver of this investment is realizing a successful IPO and achieving the high multiples being placed on technology companies by the market today. Hence, Enron is taking full internet market risk for a period of up to 24 months. The target is to double the number of employees to about 200 and to double revenues to about \$31m before IPO. Although there is no direct mitigation for this risk, OSI is a profitable business, with a gross margin of 18% on sales. If an IPO cannot be achieved satisfactorily, Enron will still have a minority stake in a going concern (DCF valuation using a perpetuity formula and a discount rate of 15% gives a value of \$12m for the IT business only).																									
Legal Risk	The transaction documents to be negotiated will seek to require the two co-founders to give customary warranties and indemnities in respect of the sale of their shares in OSI, including any tax liabilities arising prior to completion. The co-founders' aggregate liability in respect of claims under such warranties and indemnities will be limited to the purchase price, and subject to such claims being made by Enron within approximately 24 months (and in the case of tax-related matters, within 7 years). The transaction documents will not provide for any right of set off against the purchase price in respect of such claims.																									
Uncertainty on Future Performance and Strategy	<p>The market in internet-related products and services is expected to continue growing significantly, particularly in Europe (see Annex 2). A business plan covering how best to take advantage of this opportunity, mitigate risks of changes in the market and exploit new opportunities as they arise has not yet been formed (the intention is for OSI's management team to prepare such a plan after Enron's investment is made). Such a plan would be particularly important given the major changes that OSI is currently undergoing or planning (new business, new markets, new owners, accelerated growth, etc.).</p> <p>The underlying assumption on OSI's performance is that by increasing the number of employees, OSI will grow correspondingly in every respect; this growth is a key factor in achieving the significant estimated value for this investment.</p> <p>Overall, the originating team has forecasted, as per the latest income statement presented to RAC, that the following key near-term targets are achievable:</p> <table><tr><th></th><th>Jan00-Jun00</th><th>Jul00-Dec00</th><th>Jan01-Jun01</th><th>Jul01-Dec01</th></tr><tr><td>Comm. Employees</td><td>121</td><td>176</td><td>217</td><td>251</td></tr><tr><td>(end of period)</td><td></td><td></td><td></td><td></td></tr><tr><td>Revenue (6 mo)</td><td>\$12.0m</td><td>\$16.3m</td><td>\$22.3m</td><td>\$25.6m</td></tr><tr><td>Pre-tax profit</td><td>\$2.25m</td><td>\$1.5m</td><td>\$1.9m</td><td>\$1.2m</td></tr></table>		Jan00-Jun00	Jul00-Dec00	Jan01-Jun01	Jul01-Dec01	Comm. Employees	121	176	217	251	(end of period)					Revenue (6 mo)	\$12.0m	\$16.3m	\$22.3m	\$25.6m	Pre-tax profit	\$2.25m	\$1.5m	\$1.9m	\$1.2m
	Jan00-Jun00	Jul00-Dec00	Jan01-Jun01	Jul01-Dec01																						
Comm. Employees	121	176	217	251																						
(end of period)																										
Revenue (6 mo)	\$12.0m	\$16.3m	\$22.3m	\$25.6m																						
Pre-tax profit	\$2.25m	\$1.5m	\$1.9m	\$1.2m																						

**RAC Deal Approval Sheet**
**Deal Name: OS Integration Holdings Limited**

<b>Tax Risk</b>	<p>There is risk that Enron's investment in the OSI group (through Newco) will be considered a passive foreign investment company (PFIC) for US tax purposes.</p> <p>The implications of PFIC status follow:</p> <ul style="list-style-type: none"> <li>• Enron's proportion (30%) of OSI group earnings would be immediately taxable in the US as well as the UK.</li> <li>• Any future dividends received from the OSI group that were previously taxed under the PFIC regime would not be subject to tax when distributed.</li> <li>• Any amount recognized immediately due to PFIC regime would reduce the amount of capital gain Enron would recognize in the US upon later disposition of the OSI group investment.</li> <li>• The maximum expected exposure is \$500,000.</li> </ul>
-----------------	---

**KEY SUCCESS FACTORS**

	NA	Poor	Excellent
Core Business		x	
Strategic Fit		x	
Upside Potential			x
Management			x
Risk Mitigation		x	

**OTHER RAC COMMENTS:**

The proposed OSI investment is non-traditional compared with other technology-related investments made globally by Enron in the sense that: (i) our investment is not being retained by OSI to fund growth, but to liquidate a portion of the founders' equity ownership; (ii) it is larger than the typical venture capital investments made by Enron and (iii) there is no other technology-related co-investor, with significant experience in this industry, that would have enabled us to benchmark the deal team's value proposition.

The deal team believes that OSI will grow rapidly, either organically or through further acquisitions over the next 12 to 18 months and that no additional equity commitments from Enron or other shareholders will be required. However, if there was a need for additional funds, the deal team believes that OSI could seek alternative financing through other venture capital firms that have approached OSI already.

RAC will work with the deal team to finalize a financial model that will (at a minimum) include (i) 2 years of historical financials (already provided); (ii) projected cash flow statement illustrating free cash flows to fund future growth in greater detail than provided to date; and (iii) the information be broken down by main lines of business (e.g. IT and e-commerce consulting).

EC004402149

RAC Deal Approval Sheet

Deal Name: OS Integration Holdings Limited

APPROVALS

Business Originator

David Pope

Signature

Date

IT

Mark Pickering

Legal

Michael Brown

Transaction Support

Phillip Lord

Tax

Rod Sayers

Enron Global Finance

Jeff McMahon

Paul Chivers

RAC Management

Dave Gorte

Steve Young

Regional Mgmt.

Mark Frevert

John Sherriff

ENE Management

Joe Sutton

EC004402150



## Annex 1: Market Comparables

	Revenue Metric	Employee Metric
Basket of Comparables multiples	Market Cap = 42.9 x Revenue	Market Cap = \$4.7m x no. of commercial employees
OSI 1999 data	Revenue = \$15.5m	No. of commercial employees = 100
% of business web-related	50%	50%
Liquidity discount	30%	30%
OSI valuation using comparables	Implied Market Cap = 42.9 x 50% x 30% x \$15.5m = \$99.7m	Implied Market Cap = \$4.7m x 50% x 30% x 100 = \$70.5m
OSI valuation based on expected purchase price	Expected purchase price of 30% of OSI = \$9.6m Implied value of 100% of OSI = \$32m	

## Comparable companies

For the purposes of estimating the value the market would place on OS Integration if it were fully traded, a basket of similar companies ('comparables') that are already traded was used. This basket was designed to be a broad representation of the market in internet services, both in the US and in Europe.

## Revenue Metric

This is used to estimate the value the market would place on a company if it were fully traded, by assuming that market capitalization is a multiple of revenue and determining what this multiple is in the current market for similar companies. For companies in the internet sector, this metric is preferred to the earnings metric, as many of these companies are currently unprofitable.

## Employee Metric

This is used to estimate the value the market would place on a company if it were fully traded, by assuming that market capitalization is a multiple of the number of commercial employees and determining what this multiple is in the current market for similar companies. This metric is particularly useful in companies which consist mainly of intellectual capital and which operate on a fee-based consulting model.

	Exchange	IPO Date	Market Cap (\$m)			Revenue (\$m)	Market Cap / Revenue multiple
			Mar-00	Sep-99	6-month growth	1999	Mar-00
Valtech	Euro NM	Apr-99	1,066	59	1706%	26.1	40.8
Scient	NASDAQ	May-99	7,634	2,686	184%	62.9	121.4
Whittman Hart/UK Web CKS	NASDAQ	May-96	5,306	3,467	53%	986.6	5.4
Razorfish	NASDAQ	Apr-99	2,840	1,171	143%	51.2	55.5
IXL	NASDAQ	Jun-99	2,529	1,850	37%	171.9	14.7
Proximcom	NASDAQ	Apr-99	2,217	1,485	49%	82.7	26.8
Viant	NASDAQ	Jun-99	1,643	871	89%	43.8	37.5
AppNet Inc.	NASDAQ	Oct-99	1,527	n/a	n/a	89.0	17.2
ICON Medialab	Stockholm	Nov-98	1,068	477	124%	33.0	32.4
Agency.com	NASDAQ	Dec-99	987	n/a	n/a	64.0	15.4
US Interactive	NASDAQ	Aug-99	868	512	69%	27.8	31.2
Framfab	Stockholm	Jun-99	3,383	560	501%	29.0	116.0
AVERAGE (simple)			2,587	1,314	285%	139.0	42.9
OS Integration	n/a	n/a	n/a	n/a	n/a	15.5	n/a

RAC Deal Approval Sheet

Deal Name: OS Integration Holdings Limited

	Market Cap (\$m)	No. of commercial employees*			Market Cap per commercial employee (\$m)	Revenue per commercial employee (\$000)
	Mar-00	Mar-00	Sep-99	6-month growth	Mar-00	1999
Valtech	1,066	200	150	33%	5.3	130.5
Scient	7,634	612	397	54%	12.5	102.8
Whitman Hart/UK Web CKS	5,306	5,810	4,396	32%	0.9	169.8
Razorfish	2,840	770	530	45%	3.7	66.5
IXL	2,529	1,213	1,123	8%	2.1	141.7
Proxicom	2,217	421	344	23%	5.3	196.3
Viant	1,643	230	201	14%	7.2	190.8
AppNet Inc.	1,527	770	636	21%	2.0	115.6
ICON Medialab	1,068	504	296	70%	2.1	65.5
Agency.com	987	700	525	33%	1.4	91.4
US Interactive	868	245	162	51%	3.5	113.5
Framfab	3,363	322	261	23%	10.4	90.1
AVERAGE (simple)	2,587	983	752	34%	4.7	122.9
OS Integration	n/a	104	90	16%	n/a	171.2

\* Where detailed employee information was unavailable, it was assumed that 70% of the employees are commercial.

## Annex 2: Market Summary

### The European Internet Market

- By 2002, Europe is expected to be the world's largest internet user group and seven of the top ten e-commerce companies are expected to be European.
- By 2002, The global internet services market is expected to more than double to \$44bn; the European internet services market is expected to more than treble to \$23bn over the same period.
- By 2003, internet services are expected to have grown to 7% of all IT expenditure, from the current level of 3%.
- Several European internet services companies have been floated successfully over the past 18 months (see Annex 1).

### Internet Services Companies

- Internet services companies typically offer e-commerce solutions for businesses looking to tap into end-user internet customers. This ranges from technical activities such as building websites to management consultancy, such as advising on e-commerce strategy.
- Historical comparison of price behavior shows that the market in internet services stocks is well correlated with the overall market in internet stocks.
- Internet services companies work on a fee-based consulting business model, whereas most other internet companies have revenues based on the number of end-users. Hence internet services companies should have more predictable revenues.

### Key Criteria for Success

- For most internet companies, market share drives expected future revenue and hence is the main factor in the valuation of these companies; however, this does not apply to internet services companies, as they are not exposed to the end-user market.
- Brand and reputation play an important role in how the market perceives internet companies: a strong reputation will make such companies stand out from the crowd. This is crucial for internet services companies, for which success is demonstrated by retaining existing clients and attracting new ones by referral.
- Management quality is another vital component of how the market views internet companies. A clear vision and strategy are key to establishing a sustainable position in the quickly changing technology environment before it crystallizes, along with the execution capability at all levels to implement this strategy.
- In the internet market, certain fundamentals are used to distinguish stronger companies from weaker ones: for example, revenue figures are considered far more important than earnings figures, as companies concentrate on expanding rapidly and on increasing market share.

### Competition in Internet Services

Competition in the near term appears to be much less significant for internet services companies than for other internet businesses. A demonstration of this is the Swedish market, in which several internet services companies (FramFab, Icon MediaLab, Connecta, Cell Network, Adera, et al) compete. Although Sweden is at the forefront of European internet use, some of the other more populous Western European markets should rapidly catch up; hence, competition is unlikely to affect the market valuations of internet services companies in the near term.

### Bibliography

- *Technology Focus 2000 Report* - Dresdner Kleinwort Benson.
- *Internet/e-commerce Quarterly Handbook Q4 1999* - Merrill Lynch.
- *Internet/New Media Review* - Friedman Billings Ramsey.
- *Internet Quarterly Q4 1999* - Donaldson, Lufkin & Jenrette.
- *Internet Valuation Oct 99* - Salomon Smith Barney.
- *Which eBusiness Projects* - Forrester Research.
- Miscellaneous articles in the financial press.

EC004402153

**View of the Commercial Team on RAC recommendations:**

RAC have raised two main issues they feel should be addressed before investment in OS Integration progresses. The commercial team's view on these is given below:

1. A cash model should be agreed between OSI and Enron to project the cash flow necessary to achieve the growth to IPO and ensure no further cash for working capital or major expenditure is anticipated to achieve this growth. This will also allow for the analysis of this investment if Enron is forced to retain its interest and ultimately sell to a private investor.

The commercial team disagree with RAC as the team feels that, as this is a consultancy, the main hold on growth will be recruiting the staff required. If new employees join, they will be charged out as soon as they join. The only reason there will not be enough working capital is if there is not the work, in which case there will not be the growth required anyway – this is the risk, not the potential lack of working capital. With regards to major capital expenditure, there is no way of anticipating at this stage whether this will be desirable (at the moment, the company is growing organically without the need for this). However, Enron has no obligation to provide cash in this instance and will assess potential acquisitions if and when they arise on a stand-alone basis.

If Enron was forced to retain the investment and sell to a private investor, it is true that DCF may be a method used for valuation. However at this stage the commercial team feel there is no value in trying to predict what the performance of the company will be past 2001.

2. Several issues need to be addressed before completion (a key veto for Enron as a minority investor in major decisions, receipt of audited accounts, completion of due diligence satisfactorily).

The commercial team agrees that these should be received pre-completion although the team sees little comfort in audited accounts for this sort of business where the purchase price and major risks relate to intellectual capital.

EC004402154

Global Finance Summary (addendum to DASH)

## 1. Transaction Summary

Total Deal/Project Capital Commitment  
 Less: Financings  
 Less: Syndications  
 Net Enron Investment

Amount (\$000)

\$11,200

-0-

-0-

\$11,200

## 2. Investment terms and pricing:

☒ Market☐ Above Market ☐ Below Market

Describe (if necessary):

## 3. Financing terms and pricing:

☐ Market☐ Above Market ☐ Below Market

Describe (if necessary):

*on balance sheet*4. Legal or practical liquidity restrictions:  
Restricted☐ Unrestricted ☐ Legally Restricted☒ Practically

Describe (if necessary):

*Large block of private company (30%) with  
 certain tax along rights*

## 5. Any recourse to Enron (other than investment):

☐ Recourse☒ No Recourse

Describe (if any):

## 6a. Business unit intent to syndicate:

☐ None☐ Partial☒ All

Describe (if necessary):

*IPD exit or strategic sale planned*

## 6b. Intended Enron hold period:

*1-2 yrs*

## 6c. Likely Syndication Market:

☒ Industry/Strategic Partner☐ Direct Private Equity☐ Capital Markets☐ JEDI 1☐ JEDI 2☐ Enserco☐ LJM 1 or 2☐ Condor☒ Other: *IPD*☐ Margaux

## 6d. Is this a JEDI 2 "Qualified Investment"?

☐ Yes☒ No

Global Finance Representative:

*JMCHADON*  
 Signature

*JMCHADON*  
 Name

Date

**M-11**

EC004402156

# ENRON RISK ASSESSMENT AND CONTRACT DEAL APPROVAL SHEET AMENDMENT

<b>DEAL NAME:</b> Project Buffalo <b>Counterparty:</b> Invasion Energy Inc. <b>Business Unit:</b> Enron NA - Canada <b>Business Unit Originator:</b> Kyle Kitagawa <input type="checkbox"/> Public <input checked="" type="checkbox"/> Private <input checked="" type="checkbox"/> Merchant <input checked="" type="checkbox"/> Strategic <input checked="" type="checkbox"/> Conforming <input type="checkbox"/> Nonconforming	<b>Date DASH Completed:</b> February 11, 2000 <b>RAC Analyst:</b> N/A <b>Investment Type:</b> Equity <b>Capital Funding Source(s):</b> Balance Sheet <b>Expected Closing Date:</b> February 18, 2000 <b>Expected Funding Date:</b> N/A <b>Board Approval:</b> <input type="checkbox"/> Pending <input type="checkbox"/> Received <input type="checkbox"/> Denied <input checked="" type="checkbox"/> N/A
---	--

RAC Recommendation: ☒ Proceed with Transaction ☐ Returns below Capital Price ☐ Do not Proceed

## APPROVAL AMOUNT REQUESTED

Capital Commitment      \$ 1,520,000

## EXPOSURE SUMMARY

This transaction:	\$ 1,520,000
Total	\$ 21,600,000

## DEAL DESCRIPTION

Enron Canada seeks approval to dedicate \$1.5MM of cash flow, which would have been received to amortize the Enron loan (C\$ 25.452MM) to purchase additional equity in Invasion Energy Inc. ("Invasion") at the original per unit cost to maintain Enron's proportional ownership.

Invasion is a private upstream oil and gas company. Enron Canada owns 46.6% of Invasion's Common equity purchased for approximately \$2.8MM in the third quarter of 1999. Enron owns 100% of Invasion's outstanding debt purchased for approximately \$17.4MM in the third quarter of 1999. Enron owns a 3% production royalty on Invasion's properties received as part of the debt financing. The royalty has a market value of approximately \$1.5MM.

The liquidation strategy outlined in the original DASH contemplated Enron selling the company within 12 months with a goal of an accelerated sale. Although the company has not yet been sold, offers have been received in excess of the original purchase price. In addition, the company is in the process of updating its sales materials to reflect the results of recent capital spending. The 1999/2000 winter drilling program is essentially complete, with preliminary results exceeding Enron's base case. At the time of initial funding, the company was producing 13mmcf/d of sales gas, Enron Canada anticipates production will increase to approximately 18-19mmcf/d within the next 4 weeks. Enron Canada continues to believe that total proceeds from disposition will exceed C\$ 45MM and that the company will be sold prior to the end of the third quarter of 2000 (all original economics were based upon a 12 month hold). Assuming such a sale and a 9/30 closing date, an all-in IRR of 38% is expected.

The Enron loan provides for a full cash flow sweep to amortize the loan, although the company is permitted to reinvest cash flow over the 1999/2000 winter drilling season. In the event cash flow over the 1999/2000 period is used to fund the capital program, Enron is entitled to receive an increase in the production royalty from 3.0% to 3.5%.

Since Invasion's cash flow is not sufficient to fund the entire 1999/2000 capital program of \$3.2MM, the company conducted a rights offering of \$1.8MM to fund the shortfall. This rights offering was fully subscribed.

Given the results of the winter program, Enron Canada has determined that Enron would significantly benefit by participating in a rights offering instead of maintaining the outstanding debt and increasing the royalty. Enron Canada views the incremental risk associated with converting a \$1.5MM portion of the loan into equity as negligible and anticipates an incremental gain of between \$400,000 (IRR of 46%) and \$800,000 (IRR of 98%).

Accordingly, Enron Canada recommends amending the original DASH to allow Enron Canada to dedicate \$1.5MM of cash flow to purchase additional equity in Invasion at the original per unit cost.

## TRANSACTION SOURCES AND USES OF FUNDS

	<u>Sources</u>		<u>Uses</u>
Invasion Loan	\$1.5MM	Equity	\$1.5MM
Repayment			
Total	\$1.5MM		\$1.5MM

EC004402157

RETURN SUMMARY<sup>1</sup>

Return Components:	PV @ Capital Price <sup>2</sup>	IRR
Cash Outflows	\$1.5MM	N/A
Terminal Value	\$1.7MM	46%

Capital Price

Total NPV	\$0.2MM	46%
-----------	---------	-----

21.5%
-------

## APPROVALS

	Name	Signature	Date
President & CEO, ECC	John Lavorato	ATTACHED	
ECC Legal	Mark Haedicke (Peter Keohane)	<i>Mark Haedicke</i>	2/18/00
Business Unit Originator	Kyle Kitagawa	ATTACHED	
RAC Technical	Monte Gleason		
RAC Management	Rick Buy / David Gorte <i>RG 2/18/00</i>	<i>David B. Gorte</i>	2/18/00
ENA Commercial Transactions Group	Ray Bowen	<i>Raymond M. Bowen</i>	2/18/00
Enron Capital Management	Andy Fastow / Jeff McMahon	<i>Jeff McMahon</i>	2/25/00
ENA Management	Cliff Baxter	<i>Cliff Baxter</i>	2/25/00
ENE Management	Jeffrey Skilling / Joe Sutton	<i>Joe Sutton</i>	3/8/00

EC004402158

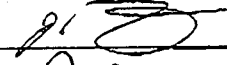
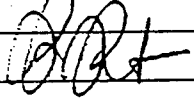
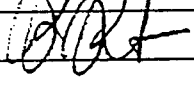
<sup>1</sup> Assumes proceeds from disposition of C\$45MM and a September 30, 2000 exit.<sup>2</sup> 21.5% from original DASH.



**RETURN SUMMARY<sup>1</sup>**

<u>Return Components:</u>	<u>PV @ Capital Price<sup>2</sup></u>	<u>IRR</u>
Cash Outflows	\$1.5MM	N/A
Terminal Value	\$1.7MM	46%
<b>Total NPV</b>	<b>\$0.2MM</b>	<b>46%</b>

**APPROVALS**

	<u>Name</u>	<u>Signature</u>	<u>Date</u>
President & CEO, ECC	John Lavorato		Feb 15 / 2000
ECC Legal	Mark Haedicke (Peter Keohane)		
Business Unit Originator	Kyle Kitagawa		Feb 15 / 00
RAC Technical	Monte Gleason		
RAC Management	Rick Buy / David Gorte		
ENA Commercial Transactions Group	Ray Bowen		
Enron Capital Management	Andy Fastow / Jeff McMahon		
ENA Management	Cliff Baxter		
ENE Management	Jeffrey Skilling / Joe Sutton		

EC004402159

<sup>1</sup> Assumes proceeds from disposition of CS\$45MM and a September 30, 2000 exit.<sup>2</sup> 21.5% from original DASH.

RAC Deal Approval Sheet  
**Global Finance Summary**

Deal Name: ~~Northern Header IEG~~ *Bedford - IEG*

1. Transaction Summary

Total Deal/Project Capital Commitment  
Less: Financing  
Less: Syndication's  
Net Enron Investment

Amount (\$000)

\$

-0-

-0-

\$

2. Investment terms and pricing:

☐ Market

☐ Above Market ☐ Below Market

Describe (if necessary):

3. Financing terms and pricing:

☐ Market

☐ Above Market ☐ Below Market

Describe (if necessary):

4. Legal or practical liquidity restrictions:  
Restricted

☐ Unrestricted

☐ Legally Restricted

☐ Practically

Describe (if necessary):

5. Any recourse to Enron (other than investment):

☐ Recourse

☐ No Recourse

Describe (if any):

6a. Business unit intent to syndicate:

☐ None

☐ Partial

☐ All

Describe (if necessary):

6b. Intended Enron hold period:

6c. Likely Syndication Market:

☐ Industry/Strategic Partner

☐ Direct Private Equity

☐ Capital Markets

☐ JEDI 1

☐ JEDI 2

☐ Enserco

☐ LJM 1 or 2

☐ Condor

☐ Other: \_\_\_\_\_

☐ Margaux

6d. Is this a JEDI 2 "Qualified Investment"?

☐ Yes

☐ No

Global Finance Representative:

Signature

Name (Printed)

Date

**M-12**

EC004402161

# ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

**DEAL NAME: Sapphire/Independent**

Counterparty: Independent Production Company  
 Business Unit: Ward Polzin  
 Business Unit Originator: ENA  
☐ Public ☒ Private  
☒ Merchant ☐ Strategic  
☒ Conforming ☐ Nonconforming

Date DASH Completed: 3/9/00

RAC Analyst: Chulley Bogle

Investment Type: Equity

Capital Funding Source(s): JEDI/Enron Balance Sheet

Expected Closing Date: 3/20/2000

Expected Funding Date: 3/27/2000

 Board Approval: ☐ Pending ☐ Received ☐ Denied ☒ N/A

 RAC Recommendation: ☒ Proceed with Transaction ☐ Returns below Capital Price ☐ Do not Proceed

**APPROVAL AMOUNT REQUESTED**

Capital Commitment \$2.919MM  
 Bid Bond Amount NA

**EXPOSURE SUMMARY**

This transaction: \$2.919MM  
 Total \$7.59MM

**DEAL DESCRIPTION**

This deal requires the investment of \$3.135MM to fund the drilling of 27 wells for coal bed methane production in the Powder River Basin, Wyoming. ENA will provide \$2.919MM, and its joint venture partner, the Independent Production Company, the remainder. This deal can properly be regarded as Phase II of a larger deal as explained below:

Phase I:

Independent Production Company, Inc. (IPC) is a privately held oil and gas company based in Denver, Colorado. The company's area of primary focus is the Powder River Basin of north-eastern Wyoming, where it operates conventional and coalbed methane wells.

In July 1999, ENA/ JEDI II on the one hand and IPC on the other formed Sapphire Bay L.L.C. The company was formed to extract coalbed methane gas from one of IPC's acreage blocks in the Powder River Basin. ENA/JEDI contributed \$4.680MM (90%) of the capital while IPC, the managing partner, contributed the leases and the remaining \$0.520MM(10%). Of a planned 65 wells, 46 had been drilled as of early March 2000. Of these, 26 have been connected to the gathering system and are currently producing. Early results have exceeded expectations and, while the potential for variability remains, reserves per well have been increased to 245mmcf from 147mmcf.

Distributions:

Distributions will be as follows: 90% of cashflows will go to Enron and 10% to IPC until Enron achieves an IRR of 15%(Payout 1). After Payout 1, Enron receives 10% of cashflows and IPC 90% until Enron reaches 22.5%(Payout 2). After Payout 2, IPC will receive 100% all cashflows.

Phase II:

The aim of this phase is to fund the drilling of 27 more wells and the construction of additional gathering system lines. The partners will remain the same, with ENA contributing 90%, and IPC 10%, viz.:

<u>Sources (\$1000's)</u>		<u>Uses(\$1000's)</u>	
Enron Contributions	2,919	Drilling & Completion	2,160
IPC Contributions	216	Gathering System	975
Total	3,135		3,135

Distributions:

Distributions will be the same as in Phase I above.

EC004402162

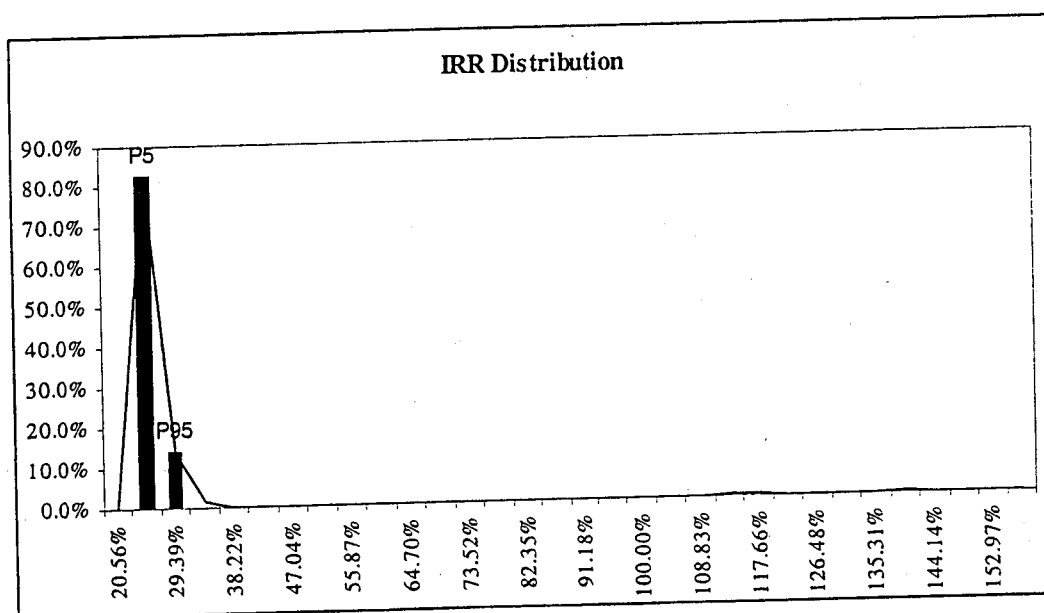
TRANSACTION SOURCES AND USES OF FUNDS (in 1000s)

	Sources		Uses
Enron Contribution	\$2,919	Drilling & Completion	\$2,160
IPC Contribution	\$216	Gathering System	975
Total	\$3,135		\$3,135

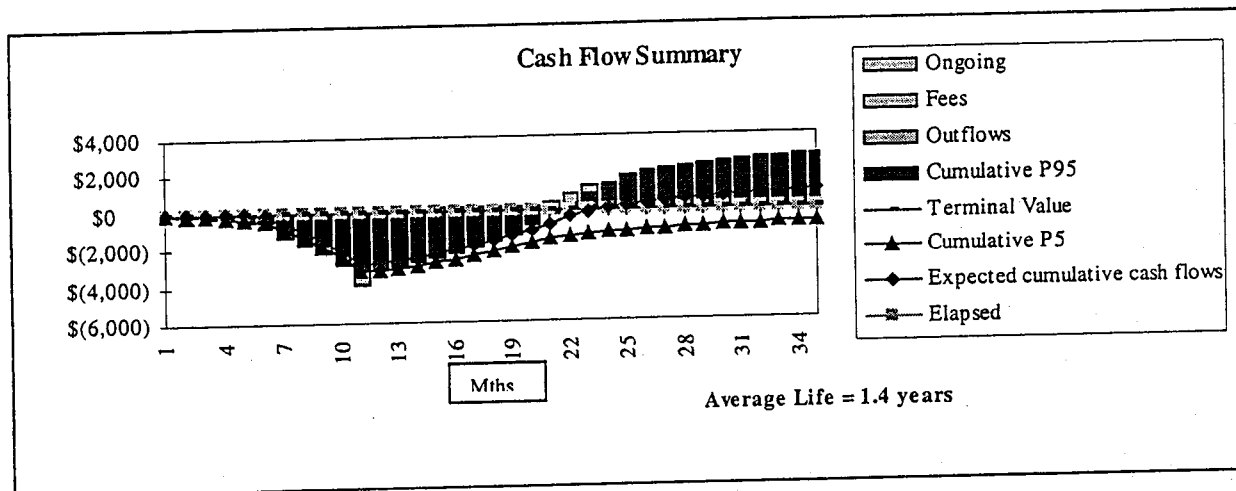
RETURN SUMMARY

Probabilistic DCF by Component	Cumulative IRR	PV @ Capital Price
Cash Outflows + Outstanding Fees	NA	\$ (2,674)
Ongoing Cash Flows	23.06%	\$ 2,924
Terminal Value	26.68%	\$ -
Total	26.68%	\$ 250

Capital Price Components	
Risk free rate (%)	6.51%
Equity/Credit premium (%)	1.85%
Country Premium (%)	0.00%
Transaction-Specific (%)	9.64%
<b>RAC CAPITAL PRICE:</b>	<b>18.00%</b>



# CASH FLOW SUMMARY



## TRANSACTION UPSIDES/OPTIONALITY

1. It should be noted that, while all the gas produced will be gathered, transported and purchased by Enron, the economics of these peripheral transactions are not included in the returns of this deal.
2. This deal also improves the terms of the \$750,000 gathering system advance from Enron Midstream Services.

## EXIT STRATEGY

When it realizes an overall IRR of 22.5% ENA will exit the deal.

## RISK MATRIX

DESCRIPTION	MITIGATION/COMMENTS
<b>Reserve Risk:</b> Risk that wells will not be as productive as expected, i.e. expected EUR will not be realized.	Coals are present throughout the Basin, with around 1,500 wells on production. There is significant well control proving the presence of coal within the IPC acreage. Significant coal bed methane production occurs adjacent to the IPC acreage. In addition, based on the results of the wells drilled so far, ENA engineers have revised the EUR upwards.
<b>Drilling Cost Overruns:</b> Risk that drilling costs will exceed budgeted amounts.	Forty-six wells have already been drilled, all within budget. Barrett Resources, another drilling company operating in the Powder River Basin, estimates the capex/well at \$68,000 per well. A capital budget, requiring ENA's approval, will be presented every six months.
<b>Operator Risk:</b> Risk that the operator will not perform as expected.	IPC has significant well-operating experience in the Powder River Basin. IPC also has economic incentive through their partial funding of the drilling costs.
<b>Timing Risk:</b> Risk that project delays may reduce returns to ENA.	While the 15% IRR flip point and the 22.5% IRR cap limit ENA's upside, they also mitigate timing as a significant risk. Effectively, timing delays come at expense of the "excess" production that goes to IPC

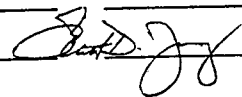
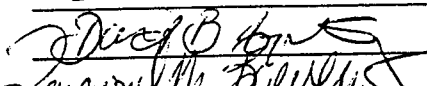
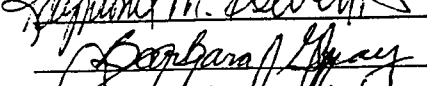

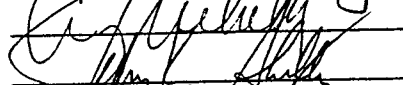
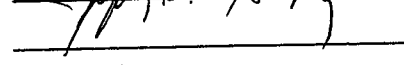
**KEY SUCCESS FACTORS**

	NA	Poor	Excellent
Core Business			x
Strategic Fit			x
Upside Potential		x	
Management			x
Risk Mitigation			x

**OTHER RAC COMMENTS:**

*Enron receives a 2% fee on all drilling and completion payments. This fee explains why the expected return marginally exceeds the 22.5% cap.*

EC004402165

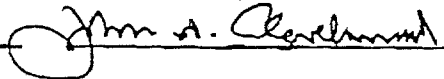
APPROVALS	Name	Signature	Date
Origination	John Cleveland		
Business Unit Mgmt	John Thompson/ Scott Josey		5/5/00
Enron Capital Management	Andy Fastow/Jeff McMahon		
RAC Management	Rick Buy/ David Gorte		3/15/00
ENA Comm. Trans. Group	Ray Bowen		
ENA Legal	Mark Haedicke		
ENA Management	Cliff Baxter/ Greg Whalley		3/21/00
ENE Management	Jeff Skilling/ Joe Sutton		3/23/00



## RAC Deal Approval Sheet

Deal Name: Sapphire/Independent

## APPROVALS

	Name	Signature	Date
Origination	John Cleveland		3/14/00
Business Unit Mgmt	John Thompson/ Scott Josey		
Enron Capital Management	Andy Fastow/Jeff McMahon		
RAC Management	Rick Buy/ David Gorte		
ENA Comm. Trans. Group	Ray Bowen		
ENA Legal	Mark Haedicke		
ENA Management	Cliff Baxter/ Greg Whalley		
ENE Management	Jeff Skilling/ Joe Sutton		

# Global Finance Summary (addendum to DASH)

## 1. Transaction Summary

	Amount (\$000)
Total Deal/Project Capital Commitment	\$ 2,919
Less: Financings	-0-
Less: Syndications	\$ 1,459
Net Enron Investment	\$ 1,460

## 2. Investment terms and pricing:

☒ Market

☐ Above Market

☐ Below Market

Describe (if necessary):

## 3. Financing terms and pricing:

☒ Market

☐ Above Market

☐ Below Market

Describe (if necessary):

## 4. Legal or practical liquidity restrictions:

☐ Unrestricted ☐ Legally Restricted

☒ Practically Restricted

Describe (if necessary): Would be difficult to sell due to size.

## 5. Any recourse to Enron (other than investment):

☐ Recourse

☒ No Recourse

Describe (if any):

## 6a. Business unit intent to syndicate:

☒ None

☐ Partial

☐ All

Describe (if necessary):

## 6b. Intended Enron hold period:

## 6c. Likely Syndication Market:

☐ Industry/Strategic Partner

☐ Direct Private Equity

☐ Capital Markets

☐ JEDI 1

☒ JEDI 2

☐ Enserco

☐ LJM 1 or 2

☐ Condor

☐ Other: \_\_\_\_\_

☐ Margaux

## 6d. Is this a JEDI 2 "Qualified Investment"?

☒ Yes

☐ No

Global Finance Representative:

Brian Kerrigan  
Signature

Brian Kerrigan  
Name (Printed)

3/15/2000  
Date

EC004402168

**M-13**

EC004402169

# ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

<b>DEAL NAME:</b> Whiskey Counterparty: N/A Business Unit: Enron NA – Canada Business Unit Originator: Kyle Kitagawa <input checked="" type="checkbox"/> Public <input type="checkbox"/> Private <input checked="" type="checkbox"/> Merchant <input type="checkbox"/> Strategic <input checked="" type="checkbox"/> Conforming <input type="checkbox"/> Nonconforming	Date DASH Completed: March 31, 2000 RAC Analyst: Marc Eichman Investment Type: Public Equity Capital Funding Source(s): Balance Sheet Expected Closing Date: 4/12-5/22/00 Expected Funding Date: 4/12-5/22/00 Board Approval: <input type="checkbox"/> Pending <input type="checkbox"/> Received <input type="checkbox"/> Denied <input checked="" type="checkbox"/> N/A
--	--

RAC Recommendation: ☒ Proceed with Transaction ☐ Returns below Capital Price ☐ Do not Proceed

## APPROVAL AMOUNT REQUESTED

Capital Commitment<sup>1</sup>      \$16.4 MM

## EXPOSURE SUMMARY

This transaction:	\$16.4MM
Total	\$16.4MM

## DEAL DESCRIPTION

Enron Canada Corp. ("ECC") seeks approval to purchase up to 1.9 million shares (the "Toe-Hold") (9.9% of common shares outstanding) of Whiskey on the open market for a maximum cost of \$16.4 MM (\$8.65 / share).\*

Whiskey is a public upstream oil and gas company listed on the TSE. Whiskey's production and reserve base is focused primarily in Western Canada. At year end 1999, production was 17,000 BOE/d (44% gas), enterprise value was \$281 MM (\$158 MM Equity Value, \$123 MM Net Debt) and net asset value was \$284 MM (PV10, external engineering) (\$14.84/share). *\* The HSR limit is not applicable based on excepted M&A*

Whisky has been a chronic industry underperformer as evidenced by (a) three year annualized share decline of 20% versus 8% annualized decline for the TSE Producers Index and (b) 3<sup>rd</sup> quartile 3 year average F&D costs of \$7.11 (proved). However, despite the poor performance, Whiskey has assembled a valuable asset position characterized by low decline rates (20%) and a large undeveloped land position (764,000 net acres). ECC believes that the company is trading at a significant discount to its underlying break-up value.

Acquiring the Toe-Hold is "Stage One" of a potential two stage transaction. After the Toe-Hold has been acquired, ECC will approach Whiskey management to "recommend" that the company seek strategic alternatives to maximize shareholder value. "Stage Two" of the transaction is optional and would be to bid for the company either through a sale process, through a producer partner or on an "unsolicited" basis. Stage Two will require a separate transaction approval for \$170 MM to launch a bid for the remaining shares of Whiskey. If that bid is unsuccessful ECC will tender the Toe-Hold to the highest bidder. If the bid is successful ECC will manage the sale of Whiskey's assets over a 6 to 12 month time frame with an expected origination of \$40 MM.

CanFund VE Investors LP announced on 4/7/00 that they own 8.1% of the target company's stock, that one of their principals will stand for Whiskey's Board and that they believe the company is trading at a significant discount to asset value. The market price has since advanced approximately 20% to \$8.59 per share. ECC anticipates that the price will fall back to a level at which their recommended strategy can be successful.

## TRANSACTION SOURCES AND USES OF FUNDS

	<u>Sources</u>		<u>Uses</u>
Enron Balance Sheet	\$16.4 MM	Equity Investment	\$16.4 MM

## RETURN SUMMARY

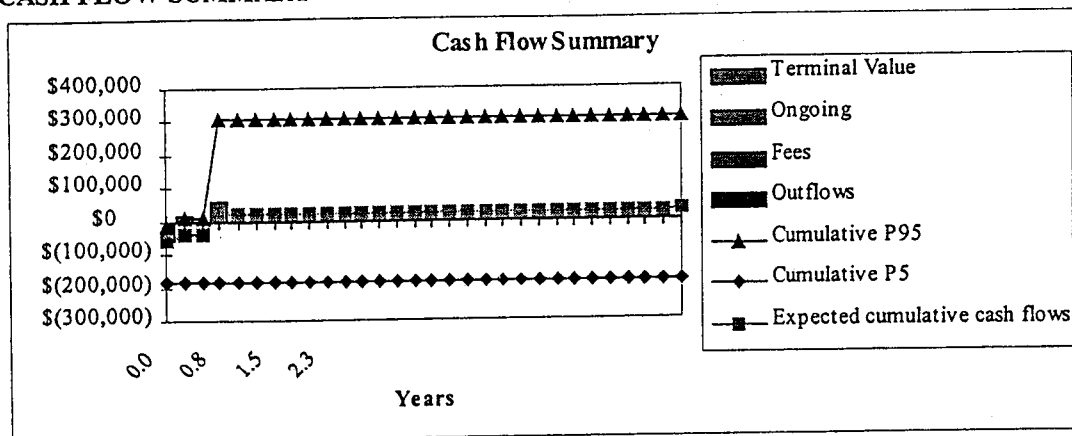
<u>Return Components:</u>	<u>PV @</u>	<u>Cumulative</u>	<u>Capital Price Components</u>	
Cash Outflows <sup>2</sup>	\$55.1 MM	-	Risk free rate (%):	6.23%
Fees	\$0.0 MM	-	Equity/Credit premium (%):	5.02%
Intermed. Cash Flows	\$0.9 MM		Country Premium (%):	%
Terminal Value	\$54.2 MM	69.17%	Transaction-Specific (%):	61.01%
<b>Total NPV10</b>	<b>\$0.0 MM</b>	<b>69.17%</b>	<b>RAC CAPITAL PRICE:</b>	<b>69.16%</b>

Relative upside ratio      N/A

<sup>1</sup> FX rate used CAD 1.4553 / USD. Approval is for C\$ 23.8MM.

<sup>2</sup> Assumes an average purchase price of C\$12.50/share.

EC004402170



### TRANSACTION UPSIDES/OPTIONALITY

Provides potentially significant contribution to 2000 earnings. Compelling risk adjusted economics. Exploits an arbitrage opportunity which exists between Canadian E&P asset valuation and public company valuations.

### RISK MATRIX

This risk matrix reflects risks and mitigants for both Stage 1 and Stage 2 because ECC believes that a decision on Stage 1 cannot be made without considering Stage 2 issues.

DESCRIPTION	MITIGATION/COMMENTS
<b>Toe-Hold Acquisition Risk</b> <ul style="list-style-type: none"> <li>At the present time Whiskey is an illiquid stock in a very illiquid sector of the market.</li> </ul>	ECC has had discrete discussions and believes some block purchases can be arranged with institutional shareholders eager to obtain liquidity.
<b>Equity Market Risk</b>	<ul style="list-style-type: none"> <li>ECC is exposed to general equity market risks while it holds the Toe-Hold. This can be mitigated by a general short of Canadian oil and gas equities, however, the short duration of this exposure may render such a strategy unnecessary.</li> <li>If ECC successfully acquires Whiskey, ECC has a specific gameplan to sell assets and manage the company. ECC has identified key personnel to assist in this process.</li> <li>If ECC successfully acquires Whiskey, ECC will not be directly exposed to equity markets because Whiskey will be private and the disposition of assets will largely be done in the asset market.</li> </ul>
<b>Unsolicited Bid Risk</b> <ul style="list-style-type: none"> <li>A potential unsolicited acquisition increases the risks due to incomplete data.</li> <li>Note that this DASH does not seek approval for an unsolicited bid. Establishing a toehold would create the option to bid for the rest of the company, possibly on an unsolicited basis.</li> </ul>	<ul style="list-style-type: none"> <li>ECC conducted a thorough review of all existing production through public databases and was able to reconcile stated production volumes.</li> <li>ECC has identified and quantified all material long-term transportation and marketing arrangements through public and industry sources. These obligations are appropriately marked in the economics of the project.</li> <li>ECC has conducted a thorough search of SEDAR and legal databases to ensure no material potential contingent obligations exist.</li> <li>ECC is familiar with Whiskey management and believes that they are conservative and material nondisclosure of assets or liabilities is unlikely.</li> <li>Unsolicited bids are complex. ECC will use external legal representation who are fully conversant in applicable securities and corporate law. In addition, Whiskey has a very typical 45 day shareholder rights plan to ensure an orderly process. Since no shares are being offered as consideration, there is no need for prospectus level disclosure in the takeover bid circular.</li> </ul>

Asset Monetization Risk	<ul style="list-style-type: none"> <li>Whiskey is an illiquid stock and this would cause ECC difficulty in selling the Toe-Hold if ECC did not proceed with the acquisition. However, ECC would recommend a bid for Whiskey in almost all circumstances to unlock the value potential in the shares either directly or through a producer partner.</li> <li>An extremely liquid market exists for high quality assets (\$8 billion of asset deals closed in 1999).</li> <li>Produce out economics are positive in the event quality bids were not immediately realized from the asset market.</li> </ul>
Reserve Risk	<ul style="list-style-type: none"> <li>ECC Engineering has evaluated 200 wells or well groups representing 92% of the company's production</li> <li>Decline rates are significantly below that of the Canadian Industry average. In addition, these are low operating cost assets, which further mitigates reserve risks due to price and economic cutoffs.</li> <li>There are no well concentration issues. The most significant well accounts for only 1.5% of corporate production.</li> </ul>
Finding & Development Risk	<ul style="list-style-type: none"> <li>ECC would dramatically restrict the capital program as asset monetization is pursued. The going concern assumptions assume 25% reinvestment in 2000 with 3rd quartile finding and development costs.</li> </ul>
Management Risk	<ul style="list-style-type: none"> <li>ECC is exposed to existing management risk for 3 months until the company is either acquired or the Toe-Hold is tendered. Management is very conservative and ECC believes this is not a material concern.</li> </ul>
Commodity Price / FX Risk	<ul style="list-style-type: none"> <li>At year-end, 100% of oil, and 65% of gas production was exposed to spot market prices (13% fixed price and 22% aggregator netback).</li> <li>Commodity hedges will be employed if the company is purchased. All valuations use existing forward curves.</li> </ul>
Legal Risks	<ul style="list-style-type: none"> <li>Legal risks will be discussed and reviewed with Peter Keohane, Jeff Hodge and Mark Haedicke. A separate legal memorandum is enclosed in the deal book.</li> </ul>

#### KEY SUCCESS FACTORS

	NA	Poor	Excellent
Core Business			X
Strategic Fit			X
Upside Potential			X
Management		X	
Risk Mitigation			X

#### OTHER RAC COMMENTS:

Realization of high levels of upside potential requires successful execution of a total company purchase, restructuring and sale (likely at the asset level). Execution of this strategy is very dependent on specific industry contacts, skills and knowledge.

EC004402172

RAC Deal Approval Sheet  
**Global Finance Summary**

Deal Name: Project Whiskey

1. Transaction Summary

Total Deal/Project Capital Commitment  
Less: Financing  
Less: Syndication's  
Net Enron Investment

Amount (\$000)

\$16,400,000  
-0-  
-0-  
\$16,400,000

2. Investment terms and pricing:

☐ Market

☐ Above Market

☐ Below Market

N/A

3. Financing terms and pricing:

☐ Market

☐ Above Market

☐ Below Market

Not Applicable

N/A

4. Legal or practical liquidity restrictions:

☐ Unrestricted

☐ Legally Restricted

☐ Practically Restricted

The shares are freely tradable with no restrictions in their primary jurisdictions.

5. Any recourse to Enron (other than investment):

☐ Recourse

☒ No Recourse

6a. Business unit intent to syndicate:

☒ None

☐ Partial

☐ All

6b. Intended Enron hold period:

☐ None

☐ Partial

☒ All

Stage One expected holding period is 3 Months.

6c. Likely Syndication Market:

☐ Industry/Strategic Partner

☐ Direct Private Equity

☐ Capital Markets

☐ JEDI 1

☐ JEDI 2

☐ Enserco

☐ LJM 1 or 2

☐ Condor

☐ Other:

☐ Margaux

6d. Is this a JEDI 2 "Qualified Investment"?

☐ Yes

☐ No

Stage One expected holding period is 3 Months.

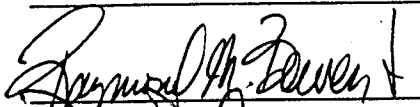
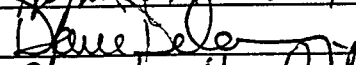
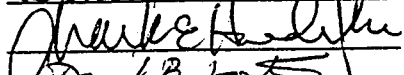
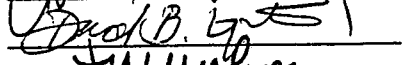
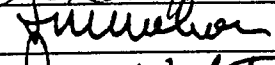
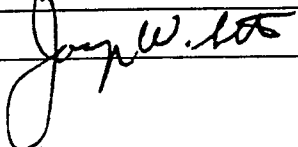
Global Finance Representative:

Michael Jakubik  
Signature

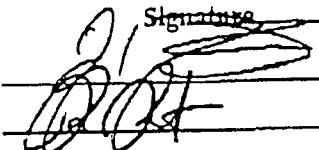
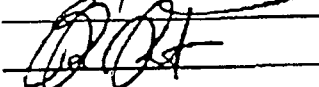
Michael Jakubik  
Name (Printed)

4/12/00  
Date

EC004402173

APPROVALS	Name	Signature	Date
President & CEO, ECC	John Lavorato		
Business Unit Originator	Kyle Kitagawa		
ENA Commercial Transactions Group	Ray Bowen		4/12/00
ENA Mgmt.	Cliff Baxter or Dave Delainey		04-12-00
Legal	Mark Haedicke (Peter Keohane)		04/12-00
RAC Management	Rick Buy or David Gorte		4/12/00
Enron Capital Management	Andy Fastow/Jeff McMahon		
ENE Management	<del>Jeffrey Skilling</del> or Joe Sutton		9/2/00



APPROVALS	Name	Signature	Date
President & CEO, ECC	John Lavorato		Apr 12/2000
Business Unit Originator	Kyle Kitagawa		Apr 12/00
ENA Commercial Transactions Group	Ray Bowen		
ENA Mgmt.	Cliff Baxter or Dave Delaincy		
Legal	Mark Haddicke (Peter Keohane) <i>per</i>		
RAC Management	Rick Buy or David Gorte		
Enron Capital Management	Andy Fastow/Jeff McMahon		
ENE Management	Jeffrey Skilling or Joe Sutton		

EC004402175

Page 6

C:\TEMP\Whiskey-b.doc

NO. 688 P. 2/2

APR. 12. 2000 9:44AM ENRON CANADA CORP - TRADING

**M-14**

EC004402176

Notes amendments for R-B.

## ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

DEAL NAME: CEZ

Counterparty: CEZ a.s.

Business Unit: Central European Business Origination

Business Unit Originator: Eric Shaw

☐ Public

☒ Private

☒ Merchant

☐ Strategic

☒ Conforming

☐ Nonconforming

Date DASH Completed: 15th February 2000

RAC Analyst: Tim Davies

Commitment Type: Fixed price physical power purchase

Capital Funding Source(s): Balance Sheet (5 yr

Commodity Commitment)

Expected Closing Date: 18<sup>th</sup> February 2000

Expected Funding Date: 1<sup>st</sup> March 2000

Board Approval: ☐ Pending ☐ Received ☐ Denied ☒ N/A

RAC Recommendation: ☒ Proceed with Transaction ☐ Returns below Capital Price ☐ Do not Proceed

### APPROVAL REQUESTED

Enron purchases

- a total of 250 MW of baseload power for March 2000, followed by 300 MW for 59 months
- on the Czech-German and Czech-Austrian borders from CEZ, a listed joint stock company (E rating:4),
- a contract quantity of 13.1425TWh, discounted volume 11.1TWh (Nominal amount EUR215mil., US\$210mil).

Czech Republic Sovereign rating is A- (S&P), Baa1 (Moody's). Enron's country rating for Czech Republic is 4.

Key Risk: Five year commodity price risk and four year transmission risk (see Risk Matrix for additional detail).

### IMPACT ON POSITION OF CONTINENTAL POWER PORTFOLIO

Pre deal (6.6 TWh short)  
This deal 11.1 TWh long  
Net position post deal 4.5 TWh long

### RETURNS/EXPOSURE SUMMARY

Contract Volume	13.1425TWh	Discounted Volume	11.1TWh
Initial Credit Reserve (provisional)	EUR 397,800		\$389,690
Initial Mark to Market (provisional)	EUR 1.63mil.		\$1.6mil.
VaR 30 day close out horizon 1 day close out horizon	EUR 6.5mil.		\$6.5mil.
	EUR 1.9mil.		\$1.9mil.
Total Risk Adjusted Capital (Credit Reserve + 30 day VaR)			\$6.9mil.

### EXISTING EXPOSURE TO COUNTERPARTY CEZ

London Physical (MTM) (\$8.0)mil.  
London Purchases \$4.0mil.  
Net Exposure (CEZ's obligation to Enron) (\$4.0)mil.

EC004402177

# ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

<b>DEAL NAME:</b> CEZ <b>Counterparty:</b> CEZ a.s. <b>Business Unit:</b> Central European Business Origination <b>Business Unit Originator:</b> Eric Shaw <input type="checkbox"/> Public <input checked="" type="checkbox"/> Private <input checked="" type="checkbox"/> Merchant <input type="checkbox"/> Strategic <input checked="" type="checkbox"/> Conforming <input type="checkbox"/> Nonconforming	<b>Date DASH Completed:</b> 15th February 2000 <b>RAC Analyst:</b> Tim Davies <b>Commitment Type:</b> Fixed price physical power purchase <b>Capital Funding Source(s):</b> Balance Sheet (5 yr Commodity Commitment) <b>Expected Closing Date:</b> 18 <sup>th</sup> February 2000 <b>Expected Funding Date:</b> N/A <b>Board Approval:</b> <input type="checkbox"/> Pending <input type="checkbox"/> Received <input type="checkbox"/> Denied <input checked="" type="checkbox"/> N/A
<b>RAC Recommendation:</b> <input checked="" type="checkbox"/> Proceed with Transaction <input type="checkbox"/> Returns below Capital Price <input type="checkbox"/> Do not Proceed	

## APPROVAL REQUESTED

### Enron purchases

- a total of 300 MW of baseload power for 60 months,
- on the Czech-German and Czech-Austrian borders from CEZ, a listed joint stock company (E rating:4),
- a contract quantity of 13.1472TWh, discounted volume 11.1TWh (Nominal amount EUR215mil., US\$210mil..)

Czech Republic Sovereign rating is A- (S&P), Baa1 (Moody's). Enron's country rating for Czech Republic is 4.

Key Risk: 5 year commodity price risk and our ability to secure only 1 year grid interconnector capacity (see Risk Matrix for additional detail).

## IMPACT ON POSITION OF CONTINENTAL POWER PORTFOLIO

Pre deal	( 6.6 TWh short)
This deal	<u>11.1 TWh long</u>
Net position post deal	4.5 TWh long

## RETURNS/EXPOSURE SUMMARY

Contract Volume	13.1472TWh	Discounted Volume	11.1TWh
Initial Credit Reserve (provisional)	EUR 397,800	\$389,690	
Initial Mark to Market (provisional)	EUR 1.63mil.	\$1.6mil.	
VaR    30 day close out horizon 1 day close out horizon	EUR 6.5mil.	\$6.5mil.	
	EUR 1.9mil.	\$1.9mil.	
Total Risk Adjusted Capital (Credit Reserve + 30 day VaR)		\$6.9mil.	

## EXISTING EXPOSURE TO COUNTERPARTY CEZ

London Physical (MTM)	(\$8.0)mil.
London Purchases	<u>\$4.0mil.</u>
Net Exposure (CEZ's obligation to Enron)	(\$4.0)mil.

EC004402178

**RAC Deal Approval Sheet**  
**DEAL DESCRIPTION**

Deal Name: CEZ

Enron contracts to purchase 13.1425 TWh from 1<sup>st</sup> March 2000 to 28<sup>th</sup> February 2005 from CEZ for delivery at

A.) Czech-German Border, between the border interconnectors

- i.) Hradec (Czech grid connector) and Röhrsdorf (German grid connector) for 200 MW,
- ii.) Hradec (Czech grid connector) and Etzenricht (German grid connector) for 50 MW (beginning 1 April 2000), and

B.) Czech-Austrian Border, between the border interconnector Slavětice (Czech grid connector) and Dürnrohr (Austrian grid connector) for 50 MW

The seller of the power is CEZ, the dominant power generator in Czech Republic, generating over 70% of the country's electricity, and owner and operator of the country's HV transmission system. CEZ is a listed joint stock company, 67% owned by the Czech State. CEZ's credit rating is BBB+ (S&P), Baa1 (Moody's) and an E rating of 4.

Czech Republic Sovereign rating is A- (S&P), Baa1 (Moody's). Enron's country rating for CR is 4.

Strategic rationale

- a) Value is created for Enron by creating a position in Central Continental Europe that we can trade around.
- b) Close ties will be forged with a major European power utility with low cost generating base and strong grid connections to Germany, Austria, Poland and Slovakia.
- c) A long term wedge will be driven into the established relationships between CEZ and BAG, VEAG, Austrian Verbund (ÖVG) and Czechpol (a small power trading company based in CR)

---

**TRANSACTION UPSIDES**

Favourable five year pricing.

The fixed price agreed for this deal is 16.41 EUR/MWh. This should be compared with our five year mid swap price for Czech Border power of 16.56 EUR/MWh, which itself lies 10% above today's coal price equivalent of approximately 15 EUR/MWh.

---

**TRANSACTION DOWNSIDES**

Border interconnector capacity risk (price and availability)

---

## RISK MATRIX (Main 5 Risks Only)

DESCRIPTION	MITIGATION/COMMENTS
Transmission Risk	<ol style="list-style-type: none"> <li>1. CEZ has obligation to deliver to the Czech side of the border interconnector.</li> <li>2. Enron must secure capacity at the interconnector points at the border, and transmission into and within Germany and Austria. The current practice for allocating transmission rights is via an annual auction. The extent to which there is over-subscription for these rights may result in capacity being allocated on a pro-rata basis or denied. Bidders are required to have contracts to back the need for transmission. Interconnector capacity is therefore constrained and Enron faces the risk of not obtaining capacity or that charges for access to the interconnectors will exceed the amount anticipated today.</li> <li>3. Today's weighted average cost incurred by Enron (0.88 EUR/MWh) has been increased to an average of 1.25 EUR/MWh over the life of the contract for valuation purposes. An expected value analysis supporting this cost is attached.</li> <li>4. In the event of a capacity constraint CEZ will use reasonable efforts to redirect power to unconstrained points. CEZ is not required to spend more than EUR 50,000 in this regard</li> <li>5. CEZ is required to compensate Enron if: <ol style="list-style-type: none"> <li>a) CEZ sells power in excess of the maximum capacity of the delivery point, or</li> <li>b) CEZ itself contracts for border capacity and thereby restricts Enron's access to interconnector capacity (this clause in practice would be hard to enforce due to the practical difficulties in proving and establishing loss).</li> </ol> </li> <li>6. Enron is able to claim Force Majeure under certain circumstances related to statutory, regulatory or governmental constraint in Germany and/or Austria. Should FM conditions continue for more than 30 days, the contract may be terminated and a termination amount in line with Enron standard practice will be payable or receivable.</li> </ol>
Counterparty Risk	<p>CEZ is the predominant electricity generator in the Czech Republic. It generates over 70% of the country's electricity and owns and controls the transmission grid. CEZ is 67% owned by the Czech State, with 26% of its share capital being held by various institutional investors.</p> <p>CEZ's current generating capacity exceeds their share of domestic demand in CR by approx. 10 TWh p.a. This excess is due to increase by the end of 2002 by a further 10 TWh p.a. as new capacity comes on line. CEZ's export contracts in 1999 amounted to 5.6 TWh p.a. and this contract represents 2.6 TWh p.a.</p>
Tax Risk	<p>Enron has accepted New Tax risk of up to EUR 0.5 mil. per annum for five years. Enron therefore does not have an ability to terminate the contract on the introduction of a New Tax which results in a tax cost to Enron of less than EUR 0.5 mil. per annum.</p>
Legal and Regulatory Risk	<ol style="list-style-type: none"> <li>1. The contract is entered into under a Master Agreement (MA) which provides for cross default between all contracts entered into thereunder. A default under any other contract under the MA could therefore trigger a right to terminate this contract.</li> <li>2. Should there be action by German or Austrian Authorities against imports of power from CEZ on dumping or ecological grounds, the contract may be found to be invalid, the consequences of which are at present uncertain. On the basis of market and cost indicators at our disposal, we believe that the power is sufficiently above cost (see Transaction Upsides above and Regulatory Affairs memo.)</li> <li>3. Regulatory Affairs believe that the risks are manageable – please see attached memo.</li> </ol>
Market Risk	<p>The value of this transaction is subject to the market price risk in the German and Austrian power and transmission markets over the next five years.</p> <p>These markets may be characterised as: liquid to one year, semi-liquid to two years, and illiquid further out.</p> <p>Monthly curve validation will need to take account of this.</p> <p>See attached note from Market Risk entitled "Impact on Positions"</p>

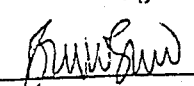
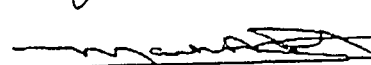
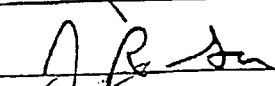
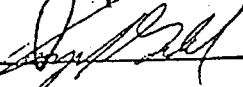
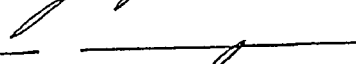



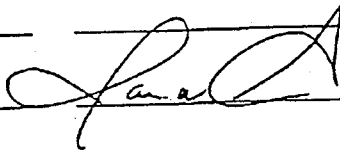
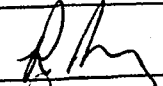
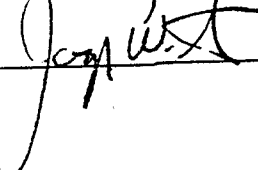
## KEY SUCCESS FACTORS

	NA	Poor	Excellent
Core Business			X
Strategic Fit			X
Upside Potential			X
Management		X	
Risk Mitigation			

## ATTACHMENTS:

Note from Market Risk entitled "Impact on Positions"  
Expected Value Analysis of grid interconnector pricing

Memo on Risks (Antony Steiner)  
Memo on Regulatory Risks (Tom Briggs)  
Draft contract

APPROVALS	Name	Signature	Date
Business Originator	Eric Shaw		15-2-00
EEL Management	Mark Frevert		18-2-00
EEL Management	John Sherriff		18-2-00
EEL Management	Joe Gold		18-2-00
Accounting	Fernley Dyson		
Legal	Michael Brown		18-2-00
RAC Management	Ted Murphy		21-2-00
RAC Management	Steve Young		18/2/00
Enron Global Finance	Jeff McMahon N/A		
Enron Global Finance	Paul Chivers N/A		
Government Affairs	Tom Briggs		17/2/00
Tax	Jim Sandt RS 18/2/2000		
ENE Management	Rick Buy		2/18/00
ENE Management	Jeffrey Skilling Joe Sutton		2/19/00

Expected value of Interconnector capacity

Known: year 2000		VEAG	BNG	APG	weighted average (4:1:1)
Price	DM/MW	20,000			
Capacity	MW	200	50	50	
Total cost	DM	4,000,000			
	hours	8,760			
Energy	MWh	1,752,000			
Price	DM/MWh	2.28	1.25	0	1.73

months		2001 12		2002 12		2003 12		2004 12		2005 2		weighted average price
		prob.	prob x price	prob.	prob x price	prob.	prob x price	prob.	prob x price	prob.	prob x price	DM/MWh
VEAG 200 MW	2	0.05	0.10	0.05	0.10	0.05	0.10	0.05	0.10	0.05	0.10	
	2.3	0.9	2.07	0.85	1.96	0.8	1.84	0.8	1.84	0.75	1.73	
	3	0.05	0.15	0.1	0.30	0.15	0.45	0.15	0.45	0.2	0.60	
	expected value	1	2.32	1	2.36	1	2.39	1	2.39	1	2.43	
BNG 50 MW	1.25	0.05	0.06	0	0.00	0	0.00	0	0.00	0	0.00	
	2.3	0.8	1.84	0.8	1.84	0.2	0.46	0.1	0.23	0.1	0.23	
	3	0.1	0.30	0.15	0.45	0.4	1.20	0.4	1.20	0.4	1.20	
	5	0.05	0.25	0.05	0.25	0.4	2.00	0.5	2.50	0.5	2.50	
	expected value	1	2.45	1	2.54	1	3.66	1	3.93	1	3.93	
APG 50 MW	0	0.5	0.00	0	0.00	0	0.00	0	0.00	0	0.00	
	1	0.2	0.20	0.1	0.10	0.05	0.05	0	0.00	0	0.00	
	2.3	0.2	0.46	0.8	1.84	0.5	1.15	0.5	1.15	0.5	1.15	
	3	0.1	0.30	0.1	0.30	0.45	1.35	0.5	1.50	0.5	1.50	
	expected value	1	0.96	1	2.24	1	2.55	1	2.65	1	2.65	
Total EV (weighted 4:1:1)			2.12		2.37		2.63		2.69		2.71	2.46

Notes:

1. Table assumes that in the future capacity cost will reflect demand.
2. VEAG border (Röhrsdorf) is currently unconstrained, whereas BHN (Etzenrichtl) is constrained. Therefore the price of BHN capacity is forecast to rise.
3. APG border (Dörnrohr) is also constrained.
4. There are currently no extra charges for HV transmission within Germany. The assumption has been made that the figures above represent the total charge (import + transmission to liquid point)
5. Austrian side of APG border is assumed to be a liquid trading point

Cezdash Interconnector capacity 17feb.xls

18/02/2000

EC004402182



## Impact on Positions

Discounted volume in the deal is 11.1 TWh. The addition of this purchase to the trading book moves the position to long 4.5 TWh (pre-deal short 6.6 TWh).

However, if we assume that:

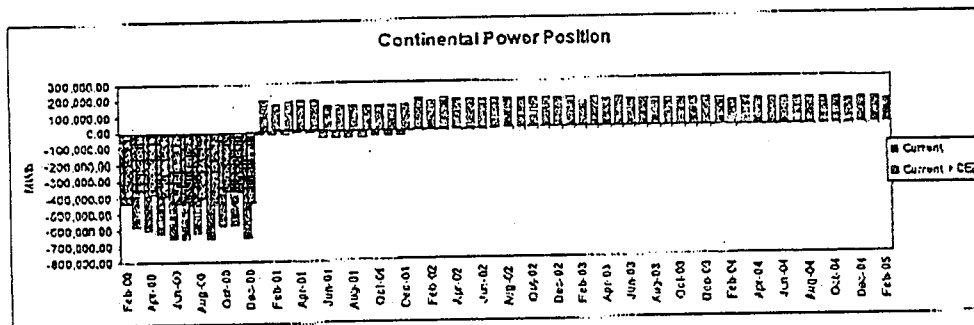
- the first year of the deal nets with the current position, due to our having secured transmission for this period;
- the remaining years do not net with our current position because we do not have secured transmission for this period

the trading book would move to around long 1.7 TWh.

The effect of the second assumption is small since our existing position is small and only extends to December 2001.

Transmission to the border is the responsibility of the counterpart, CEZ under this contract. Enron must secure capacity at the interconnector points at the border, and into Germany. The current practice for allocating transmission rights is via an annual auction. The extent to which there is over subscription for these rights will result in capacity being allocated on a pro-rata basis. Bidders are required to have contracts the back the need for transmission.

Interconnector capacity is therefore constrained and Enron faces the risk the failure to secure transmission could lead to default on the contract. This loss will be the mark - to - market value of the deal at default, plus other penalties.



## Value-at-Risk (VAR)

VAR with a close-out horizon<sup>1</sup> of 30 days for the transaction alone, is \$6.5m.

Portfolio effects of the addition of this transaction are limited due to the effects of transmission on our ability to net the position, as noted above.

Current portfolio VAR, with a 30 day close-out horizon, is \$7.7m. The inclusion of this transaction gives a VAR, again, with a 30 day close-out horizon, of \$10.2m.

## Trading Support / Risk Management

The transaction will be booked in EnPower and included in the portfolio as part of the normal reporting process. The only change required to accommodate this deal is the inclusion of a forward market price curve for this location that extends to the tenor of this deal. Liquidity at these maturities will likely be low, and monthly curve validation will need to take account of this.

VAR for the purposes of daily risk reporting currently adopts a close - out horizon of 1 day. On this basis, the trading portfolio VAR, including this transaction, will be of the order of \$1.9m.

<sup>1</sup> Close-out Horizon refers to the length of time required to extinguish the position in the market.

EC004402183

TO: Steve Young

FROM: Tom Briggs  
Mark Schroeder  
Peter Styles

DATE: 16 February 2000

RE: CEZ Power Deal – Regulatory/Political Risk Evaluation

We have reviewed the memo dated February 17<sup>th</sup> prepared by Antony Steiner describing the risks surrounding the deal and the manner in which the risks have been addressed in the deal structure. In addition, we have reviewed the information provided on the DASH form. We have not seen the exact terms of the transaction nor have we participated in structuring of the deal. Our observation is that the regulatory and political risks have been identified and adequately addressed within the deal structure. However, the regulatory and political risks identified below should be closely monitored and actively managed over the life of the transaction.

#### Potential Risks

**Downstream Capacity Risk.** The main risk exposure is Enron's ability to acquire transmission capacity on the German and Austrian grids downstream of the designated delivery points under the contract, as Enron assumes the risk of unavailable capacity. CEZ assumes the capacity and pricing risk of upstream transmission services. According to Antony, Enron has sufficient capacity at the designated points (200MW at VEAG, 50 MW at BHN and 50 MW at APG) until the end of 2000. However, there is no guarantee that Enron will be allocated sufficient capacity for the remaining years of the contract. Moreover it is not clear whether the Force Majeure provisions will provide Enron with adequate legal protection in such event.

We are not familiar with the current rules for capacity allocation on the German and Austrian grids and whether such rules will change in the future (for example, moving to an auction for capacity rights). However, based on past experience with capacity allocation methodologies, any allocation procedure should acknowledge the existence of firm, long term power purchase obligations and ensure that the results of any allocation methodology do not impair the ability to obtain firm capacity necessary to perform the transaction. However, capacity allocation has been a contentious issue throughout Europe and there is a risk that future allocation methodologies do not favour incumbent firm transactions. The possibility that the relevant grid companies may implement a "first come, first served" allocation methodology would necessitate that these grid companies be notified of the nature of the transaction in order to preserve Enron's place in a queue should one be developed.

Moreover, according to the DASH, CEZ is contractually precluded from acting in any way that might adversely affect Enron's ability to acquire downstream capacity (such as overselling firm power to other downstream parties). Arguably, given that CEZ

EC004402184

cannot oversell firm power at the border, there should be no incentive for another downstream party to hoard firm capacity and thus interfere with Enron's ability to obtain firm capacity. Furthermore, although there is no guarantee that we will be successful, Government and Regulatory Affairs is well positioned to actively manage the risk of obtaining sufficient downstream firm capacity.

**Delivery Allocation Risk.** On a daily basis, measured power deliveries at a given point do not match scheduled deliveries (for reasons of Force Majeure or otherwise). At points where title to power is transferred between multiple upstream and downstream parties, it is important to allocate over and under deliveries to the appropriate parties. Various allocation methodologies attribute under or over deliveries on a pro rate basis or require that one party take the "swing". An inappropriate allocation methodology could result in Enron being long or short on a given day, thus incurring penalties and triggering contractual shortfall provisions. It is not clear how allocation methodologies operate at the designated points or how they may change in the future. Antony informed us that as a baseload supply, Enron is deemed to receive the scheduled quantity except in situations of Force Majeure. Even if this is not the case, the cost of allocation risk should be negligible and effectively managed by Enron during the life of the deal.

**Upstream Unbundling Risk.** Antony's memo states that the upstream transmission grid is owned and operated by CEZ's wholly owned subsidiary CEPS and that CEPS may be transferred to 100% State ownership within the life of the proposed transaction. Such restructuring raises three issues: first, whether restructuring will impair CEZ's obligation to retain firm capacity on the CEPS system necessary to perform its firm sales obligation (as CEPS would no longer have the financial incentive to favour its former affiliate); second, whether restructuring of CEZ will impair its ability to fulfil its sales obligations; and third whether removal of CEZ's underlying transmission asset base will somehow impair its creditworthiness.

Risk arising from the first issue does not appear significant. First, although the terms of such unbundling are not yet known, it would be unlikely that the Government would interfere with existing firm transactions by taking CEZ's firm grid capacity to benefit another market player. However, as stated earlier, capacity allocation issues are contentious issues and such "grandfathering" may not be guaranteed. Second, to our knowledge, there is no definitive timetable for such restructuring and it may not transpire within the life of the proposed transaction. Finally, even assuming CEZ was no longer allocated upstream transmission capacity, it may be possible to add incremental capacity to the transmission grid to accommodate demand for more firm capacity. However, this is pure speculation.

The Legal Department may wish to advise whether CEZ can invoke the Force Majeure clause to excuse performance in the event any of these restructuring risks arise. In addition, the impact (if any) of potential CEZ restructuring on its underlying performance capabilities and creditworthiness is a matter for the Credit Department and the Legal Department.

**Power "Dumping" Allegations and Implications for CEZ Exports to Austria or Germany.** On February 11, 2000, the Czech News Agency reported that the European Commission is checking whether CEZ is "breaking the rules of economic

EC004402185

competition by exporting its surplus electricity for prices that are below production costs." In addition, other news articles have reported the Austrian's concern that the Czech Government will complete the controversial Temelin Nuclear plant and increase exports to Austria. It is not clear whether the Austrians are concerned about nuclear safety or cheap power imports that will displace more expensive Austrian power. Based on discussions Peter Styles has had with the EU Competition Directorate, the news report is not accurate – there are no investigations being conducted.

Investigation under either EU State Aid provisions (assuming such provisions are applicable to the Czech Republic) or EU Competition Law could restrict CEZ's ability to export and/or Enron's ability to import power into the EU. In addition, an outcome of the ongoing EU accession negotiations between the Czech Republic and Brussels could be that Austria and Germany are able to invoke reciprocity provisions which will restrict power imports from non-EU Member States. According to Paul Hennemyer, section 13 of the Austrian Energy Law requires imported power to be generated from politically correct sources as opposed to nuclear power. Importers are required to obtain approval from the Economics Ministry for power imports. For this reason, imports into Austria are deemed to be sourced from hydro facilities. Such restrictions do not apply to power transit through Austria for another country.

Given that the Austrian Government retains a 51% ownership in the Verbund, the Government has an incentive to prohibit or otherwise discriminate against low cost power imports controlled by competitors of the Verbund. However, there are a number of reasons why such "dumping" concerns may not pose significant political or regulatory risks. First, Enron's interpretation of EU Member State discrimination and reciprocity provisions is that so long as incumbent utilities are importing power from non-EU Member States, competitors such as Enron maintain an equal right to import from the same sources (assuming capacity is available). Therefore, in the event anti-dumping concerns are raised, they will impact *all* parties importing power. It is unlikely that such parties will want to "cut their nose to spite their face" by restricting access to cheap power for their own needs.

Second, the basis for a "dumping" allegations is that power is being sold below average cost (fixed and variable) – at marginal cost. Current published spot prices suggest that most power in the wholesale market is sold at below "average cost". Therefore, it is unlikely that such an argument can be sustained without disrupting the entire power market. It is also unlikely that CEZ can be accused of predatory pricing given that its exports represent a relatively small portion of the German and Austrian market.

Third, according to the news article, it appears that the Austrian Government has already cleared CEZ of these dumping allegations. Antony has a copy of the Austrian government's opinion that will be included in the deal file. In addition, issues with regard to import into Austria of politically incorrect power appear overblown given that the Austrian Verbund is seeking to import power from UES in Russia and the Ukraine (see attached *European Power Daily* article).

Fourth, it has been argued that the World Trade Organisation rules applicable to trade in goods (which can be defined to include energy commodities) prohibit reciprocity

EC004402186

restrictions on trade. This has been the position maintained by the Swiss to gain access to export power markets. Moreover, if Austria or Germany invoked reciprocity rules, they would have to be applied equally to all importers. Therefore, Enron could be protected by the rules prohibiting discriminatory access conditions.

Finally, the Legal Department may wish to comment on whether the Force Majeure clause can be invoked by either Enron or CEZ in the event any dumping or reciprocity rules prohibit Enron from importing and CEZ from exporting power to the EU.

Although there is a political risk that Austria and Germany may act to restrict Czech power imports, Enron is well positioned to monitor and actively manage any impact such risk may inflict on the proposed transaction.

**Downstream Transmission Pricing Risk.** According to the DASH form, the cost of utilising Austrian and German transmission capacity has been fixed for 2000. However, German transmission prices have been established pursuant to the Verbundvereinbarung (sic) (VVII) which is currently being examined by the EU Competition Directorate. Such review could result in transmission prices changing for 2000, but it is unlikely. However, we cannot speculate on the cost of transmission for the remaining life of the transaction.

EC004402187



# Interoffice Memorandum

To: All signatories to DASH form

From: Antony Steiner

Subject: Risks surrounding 60 month power purchase on  
Czech border

Department: ECT-Europe

Date: 17 February 2000

## 1 Deal description

Enron purchases a total of 300 MW of baseload power for 60 months on the Czech-German and Czech-Austrian borders, beginning on 1 March 2000. The seller of the power is ČEZ, the dominant power generator in Czech Republic (CR) and owner and operator of the country's HV transmission system.

## 2 Strategic rationale

- Value is created for Enron by agreeing a fixed price below our mid swap price for the period.
- Close ties will be forged with a major European power utility with low cost generating base and strong grid connections to Germany, Austria, Poland and Slovakia.
- A long term wedge will be driven into the established relationships between ČEZ and BAG, VEAG, Austrian Verbund (ÖVG) and Czechpol (a small power trading company based in CR)

## 3 Deal value

Provisional Mark to Market value is EUR 1.63 million

EC004402188

## 4 Delivery risk

- ČEZ's current generating capacity exceeds their share of domestic demand in CR by approx. 10 TWh p.a. This excess is due to increase by the end of 2002 by a further 10 TWh p.a. as new capacity comes on line. ČEZ's export contracts in 1999 amounted to 5.6 TWh p.a. This contract represents 2.6 TWh p.a.
- ČEZ's credit rating is BBB+ (S&P), Baa1 (Moody's). Czech Republic Sovereign rating is A- (S&P), Baa1 (Moody's). Enron's country rating for CR is 4.
- ČEZ is a listed joint stock company, 67% owned by the Czech State, and has made several international issues of debt.

## 5 Transmission risk within Czech Republic

- ČEZ has the obligation at its cost to deliver to the border of CR, this obligation being limited solely by events of Force Majeure.
- FM clause excludes circumstances of statutory, regulatory or governmental constraint.
- Today the Czech HV transmission system is owned and operated by ČEZ's wholly-owned subsidiary, ČEPS, and ČEZ exercise defacto monopoly rights to export power via ČEPS. However, it is likely that within five years ČEPS will be transferred into full state ownership, and full regulated TPA introduced as part of the measures being taken by the CR to comply with the EU Electricity Market Directive.

## 6 Border interconnector capacity risk

- Enron is responsible for acquisition of import capacity on the border interconnectors between Czech and German grids, and between Czech and Austrian grids, to enable the power to be exported, and the cost of that acquisition.
- Enron currently has rights to sufficient capacity until the end of 2000. Capacity on the German border points is currently allocated by grid operators VEAG and BNG annually for calendar years, and is likely to continue to be so allocated in the next five years. In the event that demand exceeds supply of capacity, allocations are scaled down pro rata to the capacity applied for. Applicants must show evidence of contracts for power delivery at the relevant border point. Although currently the price of interconnector capacity is fixed, it is

Your Personal Best Makes Enron Best

Communicate- Facts Are Friendly

Better, Faster, Simpler

Form C00-459-1 (7/92)

FFA-1A-2000 09:18

01/19/07/251

914

P.12

- expected in the future to reflect supply and demand. Capacity on the Austrian border point is currently allocated by grid operator APG on an ad-hoc basis, but is expected to follow a similar pattern to the German case.
- c) No procedure currently exists for long term capacity allocation at VEAG or BNG interconnectors, and both operators refuse to reserve capacity reservation for 2001 onwards.
  - d) APG has not yet published their transmission tariffs.
  - e) ČEZ is precluded from acting in any way (including selling firm power in excess of the border point capacity, and itself acquiring capacity in preference to Enron) that might adversely affect Enron's ability to acquire interconnector capacity. If capacity is constrained, ČEZ will use best efforts to redirect power to unconstrained points.
  - f) Today's weighted average cost (1.73 DEM/MWh) has been increased to an average of 2.5 DEM/MWh over the life of the contract for valuation purposes. An expected value analysis supporting this cost is attached.

#### 7 Regulatory risk of import into Germany and Austria

- a) Enron is obliged to take delivery of power, this obligation being limited solely by events of Force Majeure.
- b) FM clause includes circumstances of statutory, regulatory or governmental constraint.
- c) Imports into Austria are declared as being generated solely by hydro power plants in order to comply with the Austrian Energy Act.

#### 8 Regulatory risk of export from Czech Republic

ČEZ assumes full responsibility for export of the power, including holding an export licence and making the necessary customs declaration.

EC004402189

## CONTRACT

Date: [ ] February 2000

Parties: 1. ČEZ, a.s. ("CEZ"), Jungmannova 29, 111 48 Praha 1, Czech Republic,  
fax no.: +42 02 24 08 24 46, and  
2. Enron Capital & Trade Resources Limited ("Enron"), Enron House, 40  
Grosvenor Place, London SW1X 7EN, England, fax no.: +44 207 783 8917

We refer to the Framework Contract About Mutual Trade in Electricity dated 14 April 1999, as amended (the "Master Agreement"). Terms defined in the Master Agreement shall have the same meaning in this agreement, unless otherwise provided for herein, and this agreement represents a Future Contract (the "Contract") under the Master Agreement, the terms and conditions of which are as follows:

Seller:	CEZ
Buyer:	Enron
Contract Price:	16.4125 EUR per MWh
Capacity:	From 1 March 2000 to 31 March 2000: 250 MW From 1 April 2000 to 28 February 2005: 300 MW
Supply Term:	For Delivery Points A.) i.) and B.) specified below: From 1 March 2000, 00:00 hours, to 28 February 2005, 24:00 hours, each day inclusive For Delivery Point A.) ii.) specified below: From 1 April 2000, 00:00 hours, to 28 February 2005, 24:00 hours, each day inclusive
Contract Quantity:	13,110,000 MWh
Supply Characteristics:	Firm
Czech System Operator:	CEPS for all Delivery Points specified below
Relevant Foreign System Operator:	For Delivery Points specified below: A.i.) VEAG, A.ii.) BNG, B.) APG
Delivery Points:	A.) Czech-German Border, on the interconnected high-voltage 400kV lines between the border interconnectors i.) Hradec (CEPS grid connector) and Röhrsdorf (VEAG grid connector) for 200 MW, ii.) Hradec or Přeštice (CEPS grid connector) and Etzenricht (BNG grid connector) for 50 MW, and  B.) Delivery will only be made between Sokolnice and Bisamberg in the case that a) Enron is unable to acquire capacity on the grid connector Slavětice-Dürnröhr but has acquired capacity on the grid connector Sokolnice-Bisamberg, provided that CEZ is able to make delivery at the grid connector Sokolnice-Bisamberg, or b) CEZ is unable to make delivery at the grid connector Slavětice-Dürnröhr but has acquired capacity on the grid connector Sokolnice-Bisamberg, provided that Enron has acquired capacity on the grid connector Sokolnice-Bisamberg.

In the case of grid constraints at the respective Delivery Point (including, e.g., Enron's failure to acquire grid access), at Enron's request, CEZ shall make reasonable efforts (within total contract quantity and total contract capacity) to deliver a capacity and quantity allocation different from the allocation specified herein or to make delivery to a further delivery point not currently specified herein,



provided, that such efforts will in no case require CEZ to incur expense greater than 50,000 EUR. Other than as a result of such specific request, CEZ shall be under no obligation to reserve any capacity on the Czech side of any delivery points other than provided for above under A.) and B.).

Notification:

CEZ and Enron shall notify the despatch centre of CEPS and the Relevant Foreign System Operator respectively of all delivery programmes as requested by CEPS and the Relevant Foreign System Operator, respectively.

Specifications:

Enron will confirm VEAG, BNG, APG grid access by 25 February 2000 for delivery in the year 2000 and thereafter by 27 December of each year for delivery in the following year.

Special Provisions:

1.A) CEZ shall not take any action that directly or indirectly results in, or could contribute to, the total Maximum Guaranteed Capacity available at the relevant Delivery Point being exceeded (taking into account the quantity and capacity provided for in this contract).

Maximum Guaranteed Capacity shall for the purpose of this provision be defined for each Delivery Point as the total secured transmission capacity notified by the relevant grid operator for the relevant grid connector for the relevant period. In the case that the grid operators on either side of a border notify differing Maximum Guaranteed Capacities, the lower Maximum Guaranteed Capacity notified shall apply.

In the case of a breach of this clause 1.A), Enron shall have the right to notify CEZ that, for the period Enron failed to acquire access rights, CEZ shall be deemed to have failed to deliver electricity (the quantity of non-delivered electricity being determined on a pro-rata basis in the case of partial acquisition) and the provisions of Article I, paragraph 8 of the Master Agreement shall apply.

1.B) CEZ shall not take any action that materially adversely affects (including, but not limited to, price or availability) the acquisition of grid connector capacity access at the relevant Delivery Point by Enron. In the case of a breach of this clause 1.B), CEZ shall hold Enron harmless with respect to the resulting loss demonstrated by Enron to CEZ through supporting evidence. For the avoidance of doubt, CEZ shall, subject to the provisions of this Contract, not be precluded from itself acquiring grid connector capacity access at the Delivery Points during the Supply Term.

2. It is the obligation of CEZ to secure transmission rights up to (and including) the Czech border with respect to the Delivery Points provided for herein and CEZ shall not be entitled to claim Force Majeure pursuant to Article II of the Master Agreement for any circumstances arising directly or indirectly out of statutory, regulatory or governmental constraint within the Czech Republic other

than States of Emergency as declared in accordance with the Czech Republic Energy Act 222 of 2 November 1994.

3. Each of the parties agrees and warrants that it will not, and shall procure that its Affiliates and their respective employees will not, make, cause to be made, or promise or offer to make, in connection with this Agreement any payment, loan, gift or transfer of anything of value, directly or indirectly: (i) to or for the use or benefit of any government official or government employee (including employees of government-owned entities or corporations); or (ii) to any political party, official of a political party or candidate; or (iii) any official or employee of a public international organization; or (iv) to an intermediary for payment to any of the foregoing.

CEZ agrees that it will, at the request of Enron, certify its compliance with the foregoing. In the event that CEZ has acted in non-compliance with the United States' Foreign Corrupt Business Practices Act of 1977, as amended (the "FCPA"), in respect of any transaction provided for in, or incidental to, this Contract, Enron shall have the unilateral right, exercisable immediately upon giving written notice to CEZ, to terminate this Contract subject to the provisions of Article III of the Master Agreement. In the event that Enron shall be found in non-compliance with the United States' Foreign Corrupt Business Practices Act of 1977, as amended (the "FCPA") solely as a result of its actions, in respect of any transaction provided for in, or incidental to, this Contract, CEZ shall have the unilateral right, exercisable immediately upon giving written notice to Enron, to terminate this Contract subject to the provisions of Article III of the Master Agreement.

In its current form, the FCPA makes it unlawful to offer, pay, promise or authorize to pay any money, gift or anything of value, including, but not limited to, bribes, entertainment, kickbacks or any benefit, directly or indirectly, (i) to any non-US government official or any non-US political party, or (ii) to any person while knowing or suspecting that the payment or gift will be passed on to a foreign official in connection with any business activity of Enron or its affiliates.

Each of the Parties agrees and warrants that should it learn of any conduct causing non-compliance with these Business Conduct provisions, it will immediately advise the General Counsel at Enron and [insert CEZ representative] respectively.

4. If any New Tax is or shall become applicable with respect to this Contract, and Enron succeeds in passing the same through to a third party, Enron shall pay all such New Taxes or shall reimburse CEZ for such New Taxes. If Enron is not able to pass through a New Tax, the Party that is liable for such New Tax ("Taxed Party") shall be entitled to terminate this Contract provided that (i) the total amount of New Tax to be paid in respect of the outstanding Contract Quantity by the Taxed Party exceeds 500,000 EUR annually (ii) the Taxed Party has given the other Party written notice of its intent to terminate this Contract following a period of at least one month, and (iii) during this period the Parties have not been able to reach an agreement in good faith as to the sharing of the New Tax. Thereupon each party shall calculate the Termination Amount resulting

EC004402192

Vonbockm/German trading/documents/CEZE7.doc

from the termination of this Contract in accordance with paragraph 3 of Article III of the Master Agreement. If there is a difference between the Termination Amounts so calculated by the Parties, then the lower amount calculated shall be payable by the relevant Party plus one half of the difference between such Termination Amounts. Such payment shall be settled within ten Business Days.

For the purpose of this clause, "New Tax" means "any Tax enacted and effective after the Effective Date or that portion of an existing Tax which constitutes an effective increase in applicable rates or any law, order, rule or regulation or interpretation thereof, enacted and effective after the Effective Date resulting in the application of any Tax to a new or different class of persons", "Tax" means any royalty, tax, duty or levy on electricity or on the generation, sale, transportation or supply of electricity other than value added tax, and "Effective Date" means "the date of execution of this Contract by the Parties".

For the avoidance of doubt, New Tax shall not include fair market consideration for making available grid connector or transmission capacity.

5. For the avoidance of doubt, this Contract shall remain valid and binding in its entirety for the term set forth above and shall not be affected by any termination or modification notice under Article VI, paragraph 5 of the Master Agreement or any other form of termination, novation or voidance of the Master Agreement.

6. For the purposes of this contract, the following terms shall have the following meaning:

"CEPS" means "Czech Transmission System Operator ČEPS, a.s., Argentinská 38, Praha 7, Czech Republic, dispatch centre tel. +420 2 2408 2954 (Programme), +420 2 2408 2211 (24 hour)"

"VEAG" means "German Transmission System Operator Vereinigte Energiewerke AG, Chaussestrasse 23, 10115 Berlin, Germany, dispatch centre tel. +49 030 5150 4237 (Programme), +49 030 5150 4500 (24 hour)"

"BNG" means "German Transmission System Operator Bayernwerk Netz GmbH Nymphenburger Strasse 39, 803 35 Munich, Germany, dispatch centre tel. +49 89 1254 2231 (24 hour)"

"APG" means "Austrian Transmission System Operator Verbund – Austrian Power Grid GmbH, Am Johannesberg 5, A – 1100 Vienna, Austria, dispatch centre tel. +43 1 53113/53223"

7. This Contract has been executed in four copies, two of which have been retained by each Party. For the avoidance of doubt, Article VI paragraph 2 through 4 and 6 of the Master Agreement shall apply.

EC004402193

Vonbockm/German trading/documents/CEZE7.doc

Enron Capital &amp; Trade Resources Limited

ČEZ, a.s.

By:.....

By:.....

Name, Title

Name, Title:

:.....

Stanislav Svoboda, Chief Executive  
Officer

Ivan Bařka, Executive Director for Trade

.....

.....

.....

.....

Date:.....

Date:.....

EC004402194

Vonbockm/German trading/documents/CEZE7.doc

FEB-18-2000 09:20

01719707251

91%

P.18

**M-15**

EC004402195

# ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

DEAL NAME: Zeppelin

Counterparty: IBM

Business Unit: EES

Business Unit Originator: Troy Henry/Gayle Muench

☒ Public

☐ Private

☒ Merchant

☐ Strategic

☒ Conforming

☐ Nonconforming

Date DASH Completed: 2/4/00

RAC Analyst:

Investment Type:

Capital Funding Source(s): Balance Sheet

Expected Closing Date: 2/4/00

Expected Funding Date:

Board Approval: ☐ Pending ☐ Received ☐ Denied ☒ N/A

RAC Recommendation: ☒ Proceed with Transaction ☐ Returns below Capital Price ☐ Do not Proceed

## RETURNS/EXPOSURE SUMMARY (\$ millions)

Wholesale Commodity Risks:	\$26.6	(Overnight VaR of \$2.8 and liquidation period of 90 days)
Credit Risk:	\$ 1.0	
Retail Risks:	\$ 9.5	(Overnight VaR of \$1.0 and liquidation period of 90 days)
Total "Risk Adjusted Capital"	\$37.1	

## DEAL DESCRIPTION

EES will provide commodity management services (electricity and related services) to the 12 of IBM's 21 facilities located in the following states: NY, NC and CA (see attached). The consumption volumes at this locations are approximated at 9.7 million Mwths with a load factor of ~70%, based on historical loads (no growth) over a period of 10.5 years. EES will provide wholesale power in CA and fully bundled power at all other locations. Load growth/decline above 10%, as well as material changes in the load profile allows EES to pass incremental costs to the customer.

The pricing structure is a combination of fixed prices for the first few years and wholesale power indices plus a fixed basis for the remainder of the term (see attached schedule). EES costs are determined primarily by their ability to deliver physical commodity, based on assumptions of the beginning and ending deregulation dates for each utility, and the appropriate economics at each location. The beginning of deregulation provides for competition with the incumbent utility and end of deregulation calls for unconditional commodity management services by EES.

IBM transaction creates the following position types (in millions):

Unbundled utility tariffs	Short 3.3 Mwths – prior to the date when EES commences physical service (regulated)
Wholesale power - Load	Short 6.4 Mwths – after the date when EES commences physical service (non-regulated)
Wholesale power	Long 4.8 Mwths – position results from index-based pricing (Entergy, PJM and COB) (non-regulated).
Ancillary Services – Load	Short 6.4 Mwths – after the date when EES commences physical service (non-regulated)
ICAP – Load	Short 4.5 Mwths – after the date when EES commences physical service (non-regulated)
T&D – Load	Short 6.4 Mwths – pass through to the customer after deregulation (regulated)

This transaction also creates: congestion risks, load growth (within the 10% band: load at profitable locations decreases by 10% and vice versa), load following and other operational risks.

## RAC COMMENTS/CONCERNS

- NY East location is extremely illiquid, no long-term trades have ever been executed by the desk. NY is a fairly closed market with limited transmission in and out of the state. Additionally, basis differentials between zones within NY vary significantly due to transmission constraints.
- It is rather difficult to price ancillary services, installed capacity and congestion costs in NY, which will be greatly affected by the regulatory developments of the NY ISO.
- It is difficult to predict the timing and rate impact of electric restructuring in North Carolina, due to recent legislative proposals from Duke and CP&L concerning acquisition of municipal generating assets and debt. There is a potential negative deal impact of \$1.6 million.

EC004402196

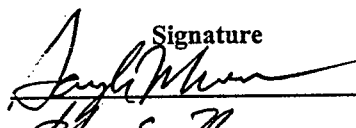
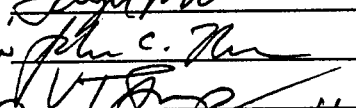
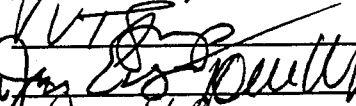
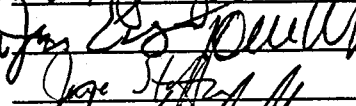
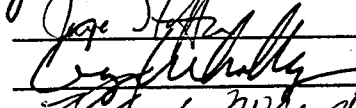
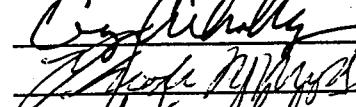
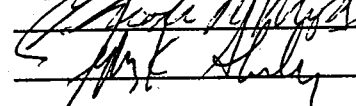
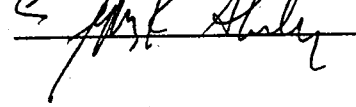
RISK MATRIX

DESCRIPTION	MITIGATION/COMMENTS
Wholesale Price Risk – increasing power prices at the respective locations will negatively affect the value of the deal.	<ul style="list-style-type: none"> <li>Hedge majority of the wholesale exposure through the power desk. Work on improving liquidity in the NY markets. Currently it is difficult-to-impossible to hedge NY short electricity position.</li> </ul>
Other Wholesale Risks (Ancillary services, congestion, basis, etc.) – increasing prices will deteriorate the value of the deal.	<ul style="list-style-type: none"> <li>Hedge majority of the wholesale exposure through the power desk. Work on improving liquidity in the NY markets. Ability to assess prices in CA, based on current trading activities and historical data. Currently it is difficult-to-impossible to hedge NY short ancillary services position.</li> </ul>
Retail Commodity Risks – increases in the unbundled utility tariffs and T&D tariffs will negatively affect the value of the deal.	<ul style="list-style-type: none"> <li>Regulatory assessments are made by the experts who have significant expertise on the related topics. Currently, EES is unable to hedge its regulatory exposure.</li> </ul>
Regulatory Risk – miscalculations of the dates of deregulation by utility will alter the value of the deal and the size of wholesale positions calculated for this transaction.	<ul style="list-style-type: none"> <li>Regulatory assumptions: deregulation dates, utility unbundled tariffs, transmission and distribution tariffs have been reviewed and evaluated by the ENE Regulatory group.</li> </ul>
Credit risk – receivable and MTM exposure on the deal.	<ul style="list-style-type: none"> <li>IBM is rated "A+" by S&amp;P.</li> </ul>

KEY SUCCESS FACTORS

	NA	Poor	Excellent
Core Business			X
Strategic Fit			X
Upside Potential		X	
Risk Mitigation		X	

APPROVALS

	Name	Signature	Date
EES Structuring	Gayle Muench		2/4/00
EES Trading	Dennis Benevides		2/4/00
EES Legal	Vicki Sharp		2/7/00
EES Management	Lou Pai/John Echols		2/4/00
ENA Regulatory	Jim Steffes/Rick Shapiro		2/4/00
ENA Risk Management	Greg Whalley		2/4/00
RAC Management	Rick Buy/Ted Murphy		2/4/00
ENE Management	Joe Sutton/Jeffrey Skilling		2/1/00

→ The only hedges available currently are on the California components of the transaction.

*Chris*

**M-16**

EC004402198



# ENRON RISK ASSESSMENT and CONTROL DEAL APPROVAL SHEET - DIVESTITURE

<b>DEAL NAME:</b> Calder <b>Counterparty:</b> Beau Canada Exploration <b>Business Unit:</b> Enron Canada <b>Business Unit Originator:</b> Kyle Kitagawa <input checked="" type="checkbox"/> Public <input type="checkbox"/> Private <input checked="" type="checkbox"/> Merchant <input type="checkbox"/> Strategic <input checked="" type="checkbox"/> Conforming <input type="checkbox"/> Nonconforming	<b>Date DASH Completed:</b> 01/10/2000 <b>RAC Analyst:</b> N/A <b>Investment Type:</b> Public Equity <b>Capital Funding Source(s):</b> JEDI I <b>Expected Closing Date:</b> 6/30/2000 <b>Expected Funding Date:</b> N/A <b>Board Approval:</b> <input type="checkbox"/> Pending <input type="checkbox"/> Received <input type="checkbox"/> Denied <input checked="" type="checkbox"/> N/A
---	---

RAC Recommendation: ☒ Proceed with Transaction    ☐ Returns below Capital Price    ☐ Do not Proceed

## DEAL DESCRIPTION:

Enron Canada ("ECC") proposes to sell its common shares in Beau Canada Exploration ("Beau"), for gross proceeds of approximately C\$15.8MM (US\$10.8MM), <sup>(1)</sup> or C\$2.25/share (US\$1.55/share) with ECC's net position C\$9.5MM (US\$6.5MM). Enron acquired 7,000,000 common shares in Beau (the "Investment") in early 1996 for a gross cost of C\$11.4MM (US\$7.8MM), or C\$1.63/share (US\$1.12/share). The transaction was funded 100% JEDI I. At 12/31/1999 Enron's net investment was carried at C\$7.1MM (US\$4.9MM), or C\$1.70/share (US\$1.17/share).

This transaction is consistent with ECC's broad strategy of liquidating the Canadian public equity merchant portfolio. Although Beau is currently trading 20% below the target price, Beau's low relative valuation and high quality asset base make Beau a prime takeover candidate. ECC has requested execution of this Divestiture DASH in anticipation of a possible takeover and resulting purchase price premium.

ECC requests discretion to sell the Investment prior to June 30, 2000 at current levels not below C\$1.25/share (US\$0.86/share), either (i) following a takeover announcement or (ii) pursuant to a lockup agreement. Any transaction contemplated after June 30, 2000 and/or below this minimum price/share, will require a separate transaction approval. The transaction will be executed by a broker and directed by Enron Financial Trading.

ECC is required to file a trading report in connection with the sale pursuant to Canadian securities legislation. This report is required because ECC and its affiliates own greater than 10% of Beau's common shares on a fully diluted basis (in addition to the Investment, ECC and its affiliates own warrants to purchase an additional 7,900,000 Beau shares). The Investment is freely tradable with no restrictions in its primary jurisdiction. Although Enron may possess material non-public information, Enron would not be precluded from selling its position following a takeover announcement or tendering pursuant to a lockup.

## VALUATION:

The company trades at an EBITDA multiple of 4.90X. <sup>(2)</sup> Beau is currently trading at C\$1.80/share (US\$1.24/share).

## CURRENT POSITION:

	<u>Gross</u>	<u>ECC Net</u>
Book Position (12/31/99) <sup>(3)</sup> :	C\$11.9MM (US\$8.1MM)	C\$7.1 MM (US\$4.8MM)
Cumulative write-up (12/31/99)	C\$0.5 MM (US\$0.3MM)	C\$0.3 MM (US\$0.2MM)

## IMPACT of SALE <sup>(4)</sup>:

	<u>Gross</u>	<u>ECC Net</u>
Achieved IRR (C\$):	7.6%	7.6%
Gain on Sale <sup>(5)</sup> :	C\$3.9 MM (US\$2.7MM)	C\$2.3 MM (US\$1.7MM)
Enron Canada Tax Impact	N/A	N/A
Enron N.A. Tax Impact	No Cdn. withholding tax	

(1) Foreign exchange rate used CAD 1.4548/USD unless otherwise noted.

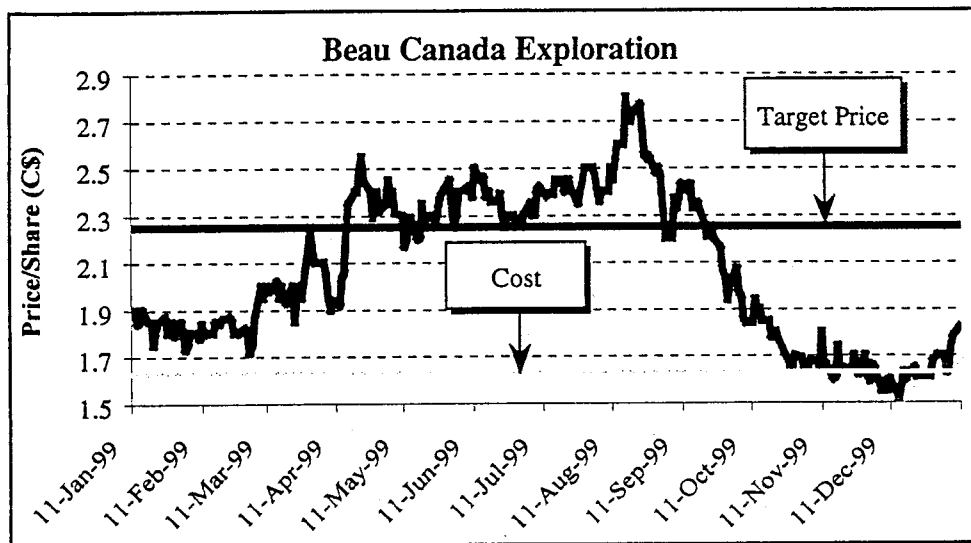
(2) Q3 1999 annualized and January 10, 2000 share price.

(3) Foreign exchange rate used CAD 1.4733/USD.

(4) Assuming C\$2.25/share (US\$1.55/share).

(5) From 12/31/99 levels. Loss versus booked value (ECC Net) is C\$1.9MM (US\$1.2MM) if shares are sold at C\$1.25/share (US\$0.86). RAC assumes that the sale of these shares at this price is not anticipated, but should it occur would be predicated on specific business reasons/conditions at the discretion of ECC.

EC004402199

**NOTIFICATIONS:****Name****Signature****Date**

JEDI I

Shirley Hudler

**APPROVALS**

RAC Management

David Gorte

RAC Technical

Monte Gleason

ENA Commercial  
Transactions Group

Ray Bowen

ECC Legal

Mark Haedicke (Peter Keohane)

Business Unit Originator

Kyle Kitagawa

ECC Management

John Lavorato

Enron Capital Management

Andy Fastow/Jeff McMahon

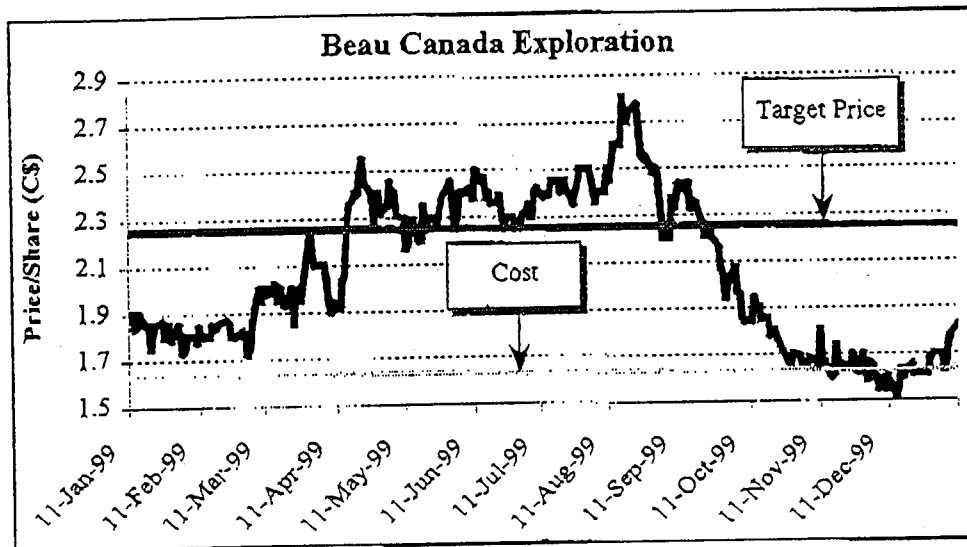
ENA Management

Greg Whalley / Cliff Baxter

ENE Management

Joe Sutton/Jeff Skilling

EC004402200

NOTIFICATIONS:NameSignatureDate

JEDI I

Shirley Hudler

APPROVALS

RAC Management

David Gorte

RAC Technical

Monte Gleason

ENA Commercial  
Transactions Group

Ray Bowen

ECC Legal

Mark Haedicke (Peter Keohane) *CHK*

Business Unit Originator

Kyle Kitagawa

ECC Management

John Lavorato

Enron Capital Management

Andy Fastow/Jeff McMahon

ENA Management

*Greg Whalley*  
Kevin Hannon/Cliff Baxter

ENE Management

Joe Sutton/Jeff Skilling

EC004402201

**M-17**

EC004402202

# ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

**DEAL NAME:** FirstWorld Divestiture  
Counterparty: FirstWorld Communicatinos  
Business Unit: Principal Investments  
Business Unit Originator: Steve Horn  
☐Public ☒Private  
☒Merchant ☐Strategic  
☐Conforming ☐Nonconforming

Date DASH Completed: 2/10/00  
RAC Analyst: NA  
Investment Type: Private Equity  
Capital Funding Source(s): ENE Balance Sheet  
Expected Closing Date: 3/1/00  
Expected Funding Date: 3/1/00  
Board Approval: ☐Pending ☐Received ☐Denied ☐N/A

RAC Recommendation: ☒Proceed with Transaction ☐Returns below Capital Price ☐Do not Proceed

## DEAL DESCRIPTION

### Transaction:

Enron's Principal Investments Group proposes to sell a approximately 80% of its investment in FirstWorld Communications ("FirstWorld") for gross proceeds of \$129.1 million, based on a \$10.75 per share purchase price. Enron will retain 3,000,000 FirstWorld Warrants, which expire April 2005.

### Investment History:

Enron acquired 5,000,000 shares of Series A Common Stock, 3,333,333 shares of Series B Common Stock, 5,000,000 December 2004 Warrants and 3,333,333 April 2005 Warrants between 12/97 and 4/98. Enron paid \$25.0 million in two tranches for the shares and warrants. Warrants were priced at the money, \$3.00 per share. The transaction was funded by Enron's balance sheet. Today, the investment represents fully diluted ownership by Enron of approximately 30.0% of FirstWorld, and at 12/31/99 the investment was value on Enron's books at \$149.2 million, \$10.55 per share.

In conjunction with the investment, Enron entered into a Security Agreement and Investor Rights Agreement. Enron will be released from such agreements upon FirstWorld's IPO of Series B Common Stock. Consequently, Enron will no longer be an Affiliate of FirstWorld based on Enron's ownership level and lack of board representation/influence. Moreover, Enron's ownership level, post-closing of the partial divestiture, will require the filing of form 13G, eliminating Enron's 13D filing requirement related to the FirstWorld investment. A 13G filing entails little market visibility with respect to changes in Enron ownership of FirstWorld because a 13G is only filed annually.

### Investment Performance:

Enron's return on its investment in FirstWorld has been exceptional. The Principal Investments Group invested \$25.0. The common share valuation at that time was \$3.00 per share. The sale price of \$129.1 million represents a 516.7% return on Enron's investment, with an approximate two year holding period. Including the 3,000,000 retained warrants, the FirstWorld investment produced \$124.2 million in earnings for Enron through 12/31/99.

## VALUATION

The FirstWorld investment was valued at 12/31/99 based on a DCF approach utilizing the company's current business plan projections. The valuation parameters at this date were: i) 14.9% WACC, ii) 10x Year 2008 EBITDA terminal exit multiple, and iii) 30% liquidity discount. The resulting valuation (\$10.55 per share) is consistent with valuations performed by FirstWorld's underwriters and slightly below the proposed sale price of \$10.75 per share.

## CURRENT POSITION

Book Position (12/31/99):	\$149.2 million
Cumulative write-up (12/31/99):	\$124.2 million

## IMACT OF SALE

Cumulative IRR:	516.7%
Gain on Sale <sup>1</sup> :	\$2.7 million
Enron N.A. Tax Impact:	Capital Gain

<sup>1</sup> Based on 12/31/99 carrying valuc of \$10.55 per share, before Boar Sterns' fees.

EC004402203

APPROVALS

RAC Management  
 ENA Management  
 ENA Business Unit  
 Enron Legal  
 Enron Global Finance  
 ENE Management  
 Other

Name

Signature

Date

David Gorte

*David B. Gorte*

2/16/00

Cliff Baxter/Greg Whalley

*Cliff Baxter*

2/16/00

Stephen R. Horn

*Stephen R. Horn*

2/14/2000

Mark Haedicke

*Mark Haedicke*

2/15/00

Andy Fastow/Jeff McMahon

*Andy Fastow*

2/17/00

Jeffrey Skilling

*Jeffrey Skilling*

4/17/00

M-18

EC004402205

# ENRON RISK ASSESSMENT and CONTROL DEAL APPROVAL SHEET - DIVESTITURE

<b>DEAL NAME:</b> Hubble <b>Counterparty:</b> Startech Energy Inc. <b>Business Unit:</b> Enron Canada <b>Business Unit Originator:</b> Kyle Kitagawa <input checked="" type="checkbox"/> Public <input type="checkbox"/> Private <input checked="" type="checkbox"/> Merchant <input type="checkbox"/> Strategic <input checked="" type="checkbox"/> Conforming <input type="checkbox"/> Nonconforming	<b>Date DASH Completed:</b> 01/21/2000 <b>RAC Analyst:</b> N/A <b>Investment Type:</b> Public Equity <b>Capital Funding Source(s):</b> JEDI II <b>Expected Closing Date:</b> 6/30/2000 <b>Expected Funding Date:</b> N/A <b>Board Approval:</b> <input type="checkbox"/> Pending <input type="checkbox"/> Received <input type="checkbox"/> Denied <input checked="" type="checkbox"/> N/A
--	--

RAC Recommendation: ☒ Proceed with Transaction   ☐ Returns below Capital Price   ☐ Do not Proceed

## DEAL DESCRIPTION:

Enron Canada ("ECC") proposes to sell its common shares in Startech Energy Inc. ("Startech") in two stages.

The first shares to be sold are those that were acquired by JEDI II. ECC proposes to sell these common shares for gross proceeds of approximately C\$16.5MM (US\$11.4MM),<sup>1</sup> or C\$10.00/share (US\$6.89/share) with ECC's net position C\$8.3MM (US\$5.7MM). Enron acquired, through JEDI II, 1,650,000 common shares in Startech (the "Common Shares") in early 1998. At 12/31/1999 Enron's net investment in the Common Shares was carried at C\$5.4MM (US\$3.7MM), or C\$6.60/share (US\$4.48/share).<sup>2</sup>

The second shares to be sold are the flow through (tax deferred) shares, which were acquired directly by ECC. Due to the tax deferral provided, these shares will be sold after all of the JEDI II shares have been sold. ECC proposes to sell these common shares for gross proceeds of approximately C\$6.0MM (US\$4.1MM) or C\$10.00/share (US\$ 6.89). ECC acquired legal ownership of 600,000 Startech flow through shares in late 1999 (the "Flow Through Shares"). At 12/31/99 ECC's investment was carried at C\$4.0MM (US\$2.7), or C\$6.60/share (US\$4.48/share).<sup>3</sup>

This transaction is consistent with ECC's broad strategy of liquidating the Canadian public equity merchant portfolio.

ECC requests discretion to sell the Common Shares and the Flow Through Shares prior to June 30, 2000 at current levels not below C\$6.00/share (US\$4.13/share). Any transaction contemplated after June 30, 2000 and/or below this minimum price/share, will require a separate transaction approval. It is expected that these shares can be sold in as few as 7-8 transactions. The transactions will be executed by a broker and directed by Enron Financial Trading.

ECC is not required to file a trading report in connection with the sale. The Common Shares and the Flow Through Shares are freely tradable with no restrictions in their primary jurisdiction. Enron does not possess material non-public information.

## VALUATION:

The company trades at an EBITDA multiple of 4.12X.<sup>4</sup> Startech is currently trading at C\$8.40/share (US\$5.79/share).

### CURRENT POSITION:<sup>5</sup>

	<u>Gross</u>	<u>ECC Net</u>
Book Position (12/31/99): <sup>6</sup>	C\$14.9 MM (US\$10.1 MM)	C\$9.4 MM (US\$6.4 MM)
Cumulative loss (12/31/99):	C\$1.1 MM (US\$0.9 MM)	C\$0.8 MM (US\$0.6 MM)

### IMPACT of SALE:<sup>7</sup>

	<u>Gross</u>	<u>ECC Net</u>
Achieved IRR (C\$):	N/A	N/A
Gain on Sale <sup>8</sup> :	C\$7.7 MM (US\$5.4 MM)	C\$4.8 MM (US\$3.4 MM)
Enron Canada Tax Impact	N/A	N/A
Enron N.A. Tax Impact	No Cdn. withholding tax	

<sup>1</sup> Foreign exchange rate used CAD 1.4508/USD (January 17, 2000 mid day rate) unless otherwise noted.

<sup>2</sup> Foreign exchange rate used CAD 1.4733/USD (December 1999 average).

<sup>3</sup> IBID.

<sup>4</sup> Q3 1999 annualized and January 16, 2000 share price.

<sup>5</sup> JEDI II and flow through shares.

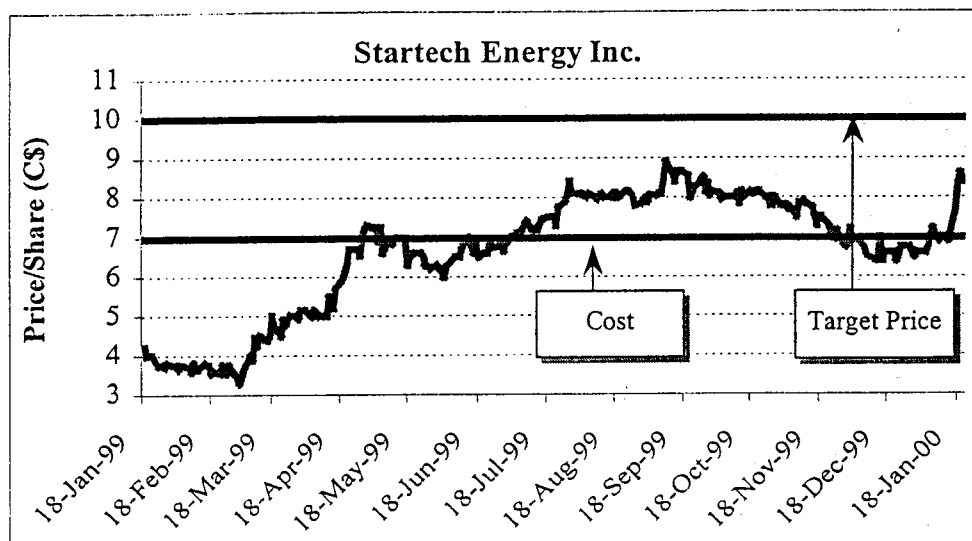
<sup>6</sup> Foreign exchange rate used CAD 1.4733/USD (December 1999 average).

<sup>7</sup> Assuming C\$10.00/share (US\$6.89).

<sup>8</sup> From 12/31/99 levels. Loss versus booked value (ECC Net) is C\$0.8 MM if shares sold at C\$6.00/share (US\$4.13/share). RAC assumes that the sale of these shares at this price is not anticipated, but should it occur would be predicated on specific business reasons/conditions at the discretion of ECC.

EC004402206



NOTIFICATIONS:NameSignatureDate

JEDI II

Shirley Hudler

APPROVALS

RAC Management

David Gorte

RAC Technical

Monte Gleason

ENA Commercial  
Transactions Group

Ray Bowen

ECC Legal

Mark Haedicke (Peter Keohane)

Business Unit Originator

Kyle Kitagawa

ECC Management

John Lavorato

Enron Capital Management

Andy Fastow/Jeff McMahon

ENA Management

Kevin Hannon/Cliff Baxter

ENE Management

Joe Sutton/Jeff Skilling

1/26/00

1/27/00

1/31/00

ATTACHED

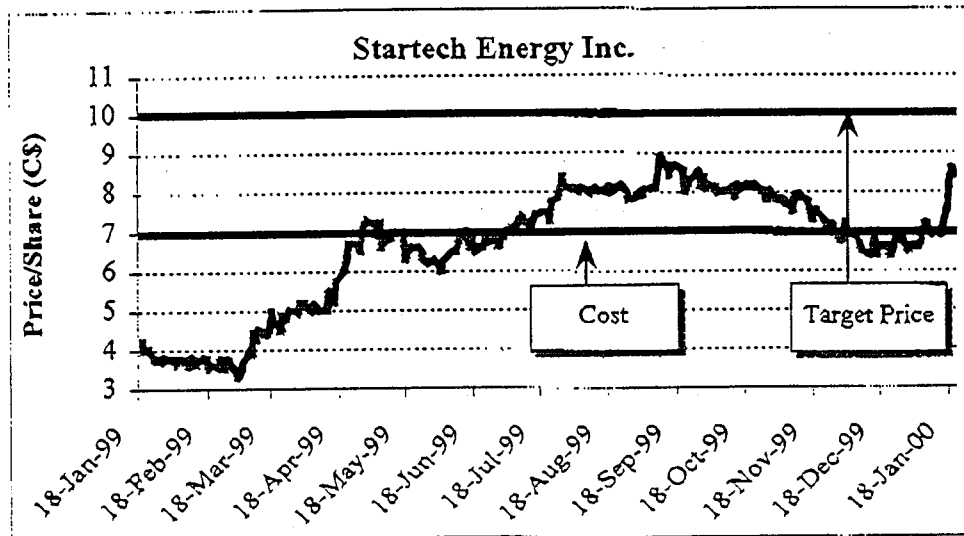
ATTACHED

2/1/00

2/2/00

2/7/00

EC004402207

NOTIFICATIONS:NameSignatureDate

JEDI II

Shirley Hudler

APPROVALS

RAC Management

David Gorte

RAC Technical

Monte Gleason

ENA Commercial  
Transactions Group

Ray Bowen

ECC Legal

Mark Haedicke (Peter Keohane) *pmk*

Business Unit Originator

Kyle Kitagawa

ECC Management

John Lavorato

Enron Capital Management

Andy Fastow/Jeff McMahon

ENA Management

Kevin Hannon/Cliff Baxter

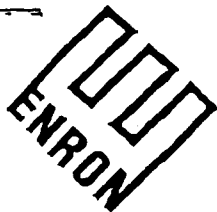
ENE Management

Joe Sutton/Jeff Skilling

Jan 24, 2000

Jan 25, 2000

EC004402208



In office  
Memorandum

To: File

c: Julia Murray

From: Peter Keohane

Department: Law

Subject: DASH dated 11/04/99 - Startech Energy Inc. (Hubble)

Date: November 18, 1999

This memo confirms my conversations with Julia Murray in connection with the DASH and my understanding from the Canadian Producer Finance Commercial Group that, in connection with the proposed disposition of Startech shares, that Enron Canada does not hold material non-public information affecting the proposed disposition of the Startech shares.

It is my understanding that any information that Enron Canada would have would relate only to certain of Startech's oil and gas reserves, title and environmental liabilities, but that any such information would in any event be available to the public, at least in material summary form, including pursuant to the following:

1. most recent Annual Information Form for Startech;
2. most recent Annual Report for Startech;
3. most recent Third Quarter Report for Startech;
4. press releases and public disclosure with respect to the Startech/Wintershall Canada transaction; and
5. prospectus issued in connection with Startech's recent public offering in connection with financing the Startech/Wintershall Canada transaction.

Further, it should be noted, that any information which is known to Enron Canada, would have been available in detail to the underwriters in connection with the prospectus and, to the extent considered material by the underwriters, disclosed in the prospectus.

Finally, it should be noted that the commercial purpose for the disposition is to reduce Enron Canada's exposure to public equities and not for any anticipated or perceived downward trend in the Startech stock.

PCMK/nc

EC004402209

Respect

Integrity

Communication

Excellence

I:\Vega\finance\startech\memo.file.DASH.doc

November 18, 1999 2:21 PM

No. 6242 P. 4/4

ENRON CANADA CORP - TRADING

Jan 25 2000 11:04 AM

**M-19**

EC004402210

# ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

**DEAL NAME:** Merlin  
**Counterparty:** ENA CLO Trust I  
**Business Unit:** ENA  
**Business Unit Originator:** Ray Bowen  
☐ Public      ☒ Private  
☒ Merchant      ☐ Strategic  
☒ Conforming      ☐ Nonconforming

**Date DASH Completed:** December 21, 1999  
**RAC Analyst:**  
**Investment Type:** Divestiture of Structured Credits  
**Capital Funding Source(s):** Public Market  
**Expected Closing Date:** December 22, 1999  
**Expected Funding Date:** December 22, 1999  
**Board Approval:** ☐ Pending ☐ Received ☐ Denied ☐ N/A

**RAC Recommendation:** ☒ Proceed with Transaction ☐ Return below Capital Price ☐ Do not Proceed

## APPROVAL AMOUNT REQUESTED

Net Divestiture Amount of a portfolio of 23 non-investment grade structured credits with a gross and net carrying value of:

- Net Carrying Value: \$249.5 million (ENA Portion)
  - Gross Carrying Value: \$320.1 million
- For Proceeds of:
- Net to ENE: \$242.8MM (ENA Portion)
  - Gross Proceeds: \$324.2MM
- Due to unfunded revolvers*

## EXPOSURE SUMMARY

This transaction: \$268.2MM of debt in ENA CLO Trust I was placed via a public capital market sale of all \$101.5MM of A-1L Notes, \$55.0MM of A-2L Notes, \$32.8MM of A-2 Notes, \$48.2MM of A-3L Notes, \$10.0MM of A-3 Notes, and \$14.5MM of A-4 Notes and \$6.2MM of B-1 Notes.

The remaining \$56.0MM raised was placed via the sale of interests as follows:

- \$2.9MM B-1 Notes (BBB) to Condor
- \$20.6MM B-2 Notes (BB) to Condor
- \$19.6MM B-2 Notes (BB) to LJM2
- \$12.9MM preferred interest in the membership interest (equity) to LJM2

## DEAL DESCRIPTION

*a limited partnership*  
 Contribution of a portfolio of 23 non-investment grade structured credits of up to \$320.1MM (\$249.5MM net to ENA) carrying value from the Enron North American merchant portfolio to a Delaware Business Trust (ENA CLO Trust I, or the "Trust") that ~~indirectly~~ *indirectly* owns an interest in a Special Purpose Vehicle that will hold these assets. Exhibit I outlines the assets to be held by the Trust. Bear Stearns, on behalf of ENA, will sell interests in all of the Class A-1L (rated AAA/Aaa by Fitch and Moody's, respectively), A-2L (AAA/-), A-2 (AAA/-), A-3L (AA+/-), A-3 (AA+/-), and A-4 (A/-) Classes of Notes issued by the Trust and \$6.2 million of the Trust's B-1 (BBB/-) Notes for aggregate debt proceeds of approximately \$268.2MM. Condor will purchase the remaining B-1 Notes and approximately half of B-2 Notes issued by the Trust. LJM2 will purchase the remainder of the B-2 Notes as well as a preferred interest in the membership interest (equity) in the Trust. All debt tranches were purchased at par, for Total Debt raised of \$311.3MM. Par value of the equity is \$53.8MM and was purchased for \$12.9MM. Enron will retain a residual interest in the membership units issued by the Trust. *assets through its qp interest in the SPV.*

The transaction is structured with eight debt Classes that will sequentially benefit from the cash flows generated by the portfolio of structured credits held by ENA CLO Trust I. Attached as Exhibit II is a synopsis of the Classes of debt and the membership units with interests in the Trust. Payments by the Trust are limited to the cash flows generated by the portfolio of structured credits held by the Trust. *Debt of* ENA CLO Trust I is non-recourse to Enron. Certain over-collateralization tests will apply to each of the debt tranches which, in certain circumstances, may result in no payments being made to the holders of certain Classes of debt which are subordinate to the Class whose overcollateralization test has not been satisfied. This may result in ENA CLO Trust I being unable to satisfy the expected payment amounts on the subordinate Classes of debt and the membership units.

## TRANSACTION SOURCES AND USES OF FUNDS

Debt Proceeds	\$311.3MM
Equity Proceeds	\$ 12.9
Gross Proceeds	\$324.2
Less Fees & Expenses	\$ 10.5
Adjusted Gross Proceeds	\$313.7
Less Paid to ENSERCO	\$ 15.0
Less Paid to JEDI II	\$126.9
Net to ENE	\$171.8MM*

Gross Carry Value of Assets Sold: \$320.1MM  
 Net Carry Value of Assets Sold: \$249.5MM

EC004402211

**RAC Deal Approval Sheet****Deal Name: Merlin**

\* Net of Enron's interest in ENSERCO and JEDI II; including Enron's proportionate interests in these entities, the net amount received by Enron from this monetization is approximately \$242.8MM.

**RETURN SUMMARY**

See "Transaction Upside/Optionality" section below.

**CASH FLOW SUMMARY**

N/A

**TRANSACTION UPSIDES/OPTIONALITY**

As it relates to the membership interests (equity) in the Trust, cash flow distributions are as follows:

- LJM2 receives 100% of equity cash flow until it receives 30% IRR
- LJM2 receives 75% of equity cash flow until it receives 35% IRR, ENA receives the remaining 25% cash flow
- Thereafter, LJM2 receives 25% equity cash flows, ENA receives remaining 75% cash flow

In a zero default, zero prepayment scenario, ENA expects an NPV @20% of approximately \$21MM on its residual equity interest.

**EXIT STRATEGY (Merchant investments only)**

This transaction represents a significant risk transfer of the assets comprising the portfolio of ENA CLO Trust I. To the extent that Enron retains a residual interest in ENA CLO Trust I, ENA has not fully divested itself of this risk, but has significantly reduced its exposure to these assets.

**RISK MATRIX (TOP 5 ONLY)**

Since this transaction is a divestiture, no risk matrix has been prepared. Because there was no practical method for ENA to divest these assets through individual sales, no meaningful comparative analysis of this divestiture against alternative methods of effecting this divestiture can be prepared. ENA's deeply subordinated residual equity interest may have no value if there are significant defaults and/or prepayments of the Trust's assets.

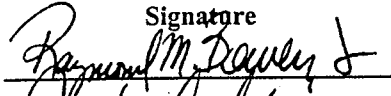
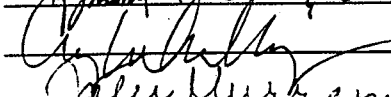
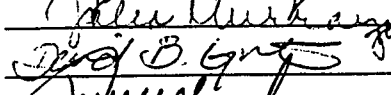
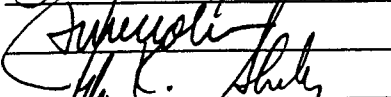
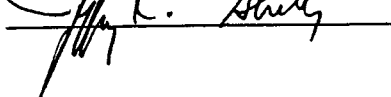

**KEY SUCCESS FACTORS**

	Poor	Fair	Good	Very Good	Excellent
Core Business					X
Strategic Fit					X
Upside Potential		X			
Management (NOT APPLICABLE)					
Risk Mitigation					X

**OTHER RAC COMMENTS:**

This transaction represents a divestiture/monetization of a significant portion of ENA's merchant portfolio of structured credits in a relatively efficient manner. This monetization will permit the redeployment of this capital to alternative uses by Enron. The retained equity interest is deeply subordinated to the preferred equity interest held by LJM2 and RAC has not independently assessed the value of this interest.

**APPROVALS**

	Name	Signature	Date
Business Unit Originator	Ray Bowen		1/19/00
ENA Mgmt.	Greg Whalley Cliff Baxter/Kevin Hannon		2/1/00
Legal	Mark Haedicke		1/25/00
RAC Management	Rick Buy/David Gorte		1/17/00
Enron Global Finance	Andy Fastow/Jeff McMahon		2/10/00
ENE Management	Jeffrey Skilling		2/10/00

EC004402212